



**AUDIT COMMITTEE
MARCH 18, 2015
9:00 A.M.**

**MCCORMICK ROOM
30 7TH STREET EAST
SAINT PAUL, MN**

Please note: Committee/Board meeting times are tentative. Committee/Board meetings may begin up to 45 minutes earlier than the times listed below if the previous committee meeting concludes its business before the end of its allotted time slot.

- (1) Minutes of January 28, 2015 (pages 1-6)**
- (2) Review Results of Grant Management Internal Control and Compliance Audit (pages 7-21)

Members

Philip Krinkie, Chair
Duane Benson, Vice Chair
Ann Anaya
Robert Hoffman
Michael Vekich
Erma Vizenor

Bolded items indicate action required.

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
January 28, 2015

Audit Committee Members Present: Trustees Philip Krinkie, Ann Anaya, Duane Benson, Robert Hoffman, Michael Vekich, Erma Vizenor.

Audit Committee Members Absent: None.

Others Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, John Cowles, Maleah Otterson, Thomas Renier, Elise Ristau, and Louise Sundin.

The Minnesota State Colleges and Universities Audit Committee held its meeting on January 28, 2015, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 8:34 a.m.

1. Minutes of November 18, 2014

The minutes of the November 18, 2014 Audit Committee were approved as published.

2. CliftonLarsonAllen Engagement Partner Transition.

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, provided background on the relationship with the system external audit firm, CliftonLarsonAllen. She explained that Mr. Tom Koop had been the engagement partner with the system until his retirement at the end of the year. Ms. Buse introduced Mr. Don Loberg as the new engagement partner with the system. She explained that Mr. Loberg's experience has been primarily in the higher education sector, across government, for profit, and nonprofit. Trustee Krinkie welcomed Mr. Loberg.

Mr. Loberg stated that he has had more than twenty years' experience. He had been the partner in charge of the higher education group with CliftonLarsonAllen since 1999. The number of clients they serve has grown from three college to over 400 colleges around the country. He explained that he works with all types of colleges, and it allows him to identify best practices and bring some of those ideas back to other colleges. He explained that he has worked with MnSCU as part of the CliftonLarsonAllen team in the past. Mr. Loberg noted that Mr. Koop would be difficult to replace and would be missed at CliftonLarsonAllen, but he added that he was comfortable walking into the engagement partner role, and very excited about the opportunity.

Trustee Benson asked if Mr. Loberg would feel comfortable contacting someone other than Ms. Buse if he identified an irregularity. Mr. Loberg assured the committee that he would have no problem bringing issues to the Board or to the Chancellor.

3. Review Results of Metropolitan State University Special Review of Employee Payroll.

Ms. Buse began by introducing Mr. Mark Carlson, Vice Chancellor for Human Resources and Interim President Devinder Malhotra from Metropolitan State University. She explained that the report had been released the day before on January 27, 2015 and was available on the Board of Trustees website. Trustees received advance copies of the report late last week.

Ms. Buse stated that it had been a long road that took remarkable efforts by many employees. She first wanted to recognize the work, cooperation and assistance from Metropolitan State University and system office human resource division staff on fixing the pay issues and completing this special review. She specifically recognized the efforts of Ms. Ginny Arthur, Metropolitan State University's provost, whose leadership was commendable. She also wanted to recognize and thank her team for their hard work and support on the project. She stated that it was a tremendous effort by the entire team that she believed would prompt valuable discussion among the board and system leaders, beyond Metropolitan State University and payroll. She gave a special thanks to Ms. Marita Hickman for all her efforts in coordinating and leading the project.

Ms. Buse stated this report is called a special review because it was not on the audit plan for the year and it took a significant amount of resources to complete the work. The project was a special request that came from the Chancellor, the former board chair and the former audit committee chair.

Ms. Buse reviewed the history of the project and then briefly explained the overall objective of the audit and the overall methodology. Vice Chancellor Carlson assembled an external review team of human resource professionals to conduct a line-by-line review of the pay for every faculty member. The Office of Internal Auditing was charged with completing a special review to determine the cause of the issues and review the accuracy of the work completed by the external review team. The Chancellor and former Board Chair Hightower wrote a letter requesting that the Office of the Legislative Auditor review the work conducted by the Office of Internal Auditing for accuracy. The Office of the Legislative Auditor has received a copy of the report, but there has been no confirmation that they will conduct an audit.

Ms. Buse stated that colleges and universities are responsible for ensuring that employees are paid accurately and timely. The system office human resource division provides training, a help desk function, and guidance to human resource offices, but they are not sufficiently staffed to provide staffing to human resource offices during times of turnover. She noted however, that they will assist in doing a transition plan if requested by a college or university.

Ms. Buse reviewed issues that resulted in the payroll discrepancies and report recommendations. She stated that there were primarily two categories of issues, the first one was the turnover that occurred in human resources and in other areas of the university and the other is just the complexity of paying faculty. Ms. Buse reviewed the results of the external review team and noted that the team did a tremendous job under difficult circumstances. Ms. Buse reviewed the methodology and results of the internal audit testing.

Trustee Krinkie questioned the idea of a university using a paper based process for authorizing pay. He asked if each college or university was able to determine its own payroll process. Ms. Buse stated that they all use the same system, but that they determine their own process for getting the data entry done within the system.

Vice Chancellor Carlson agreed but added that, while institutions have had their own processes which developed over time that was now changing. He stated that a workgroup had been working for over a year to find common best practices. He added that one of the many lessons that came out of the issues at Metropolitan State University was the disparate practices that have been going on in something as fundamental as paying employees. Vice Chancellor Carlson said that was unacceptable. He explained that they were going down several paths. First, thanks to the great work of Vice Chancellor Ramon Padilla's team in information technology, the system was close to rolling out an automated faculty management payroll process. He further added that they were looking at common practices within all institutions, so that if someone were to leave unexpectedly, a staff member could come from another campus to help. Vice Chancellor Carlson was confident that they were well on our way to solving that problem, and that it would not be a paper based process going forward.

Trustee Krinkie asked if the new process would be set up through the Campus Services Cooperative. Vice Chancellor Carlson explained that while the Campus Service Cooperative had been working on some models, those two payroll hubs operate under different processes. He stated that the automated faculty management payroll process would be a system wide approach to have standardized processing in place across the system.

Trustee Benson asked what authorization or changes would be needed from the board in order to ensure that the opportunity for this to happen in the future would be very minimal. Ms. Buse stated that it was a question of stepping back and thinking about the culture of the system and how it had developed, and the autonomy of colleges and universities and the role of the system office. While that was not specifically defined in board policy or system procedure, Ms. Buse stated that report recommendations that system office and college and university leaders develop strategies for addressing these issues.

Trustee Benson asked how the system was going to ensure that the same situation wouldn't occur again. Chancellor Rosenstone stated that Vice Chancellor Carlson took steps to take on the bigger question of the uniformity of the process by convening payroll folks from across the system to do a complete redo of the processing to create uniformity. He added that the more standardized processes like this become, the system will be able to minimize risk by ensuring some interchangeability between teams so that colleges and universities can assist each other when necessary. He stated that the strategy had been to bring college and university teams together to figure out processes in a way that was collaborative. Chancellor Rosenstone added that the test would be for the board to consider whether those collaborative processes were getting the system where the board expects it be and if the changes reduce the risk. But he further stated that the questions of uniformity of process and institution autonomy was an important one and went beyond this particular topic. Chancellor Rosenstone stated that it was a fundamental question that the board may want to discuss more deeply.

Trustee Benson stated that the initial legislation that established the Minnesota State Colleges and Universities was almost intentionally ambiguous, so that there would be a bit of tension between central control and autonomy in the various institutions. He stated that there should be a way of getting to common best practices without getting at central or defuse control.

Chancellor Rosenstone stated that the approach has been to work with colleges and universities to try to identify the best practices and work to get those implemented. He added that whether or not that sense of a shared solution was taking the system as far as the board would like to see it go, was still the question. Trustee Benson agreed and added that in order to get at that question he thought the board should have conversations about where they wanted the system to go so that they can share that direction with staff.

Trustee Hoffman wondered why the significant turnover of payroll and human resources staff occurred at Metropolitan State University and he asked what the role of the system office was once the turnover at the university became known.

Vice Chancellor Carlson stated that he inherited a great human resource team, and they had been working hard to create a community of human resource professionals. When new human resource directors are hired, they go through an orientation that helps bring them into the MnSCU family of human resource professionals. Having a community where roles have been identified, and capacity and skillsets has been built up, provides an opportunity, with good communication, to bring people in to work collectively to solve problems. Vice Chancellor Carlson stated that that was working today. He stated that the human resource directors routinely communicate with each other and the system office about their particular issues. Vice Chancellor Carlson further stated that the issue at Metropolitan State University had heightened awareness of the human resource community to a point where he had high confidence that the same issue wouldn't come up again at other institutions. And finally he noted that the human resource directors would be getting together later in the week, and one of the topic would be to walk through the audit report.

Trustee Hoffman stated that he was looking for accountability to be in place. Vice Chancellor Carlson stated that he took accountability personally.

Trustee Anaya stated that the purpose of the process should be to document the accuracy of the payment so that an outsider, or even the person getting paid, can verify that they are getting paid correctly. She added that to solve the problem in a way in which it doesn't repeat itself, the focus cannot be on whether or not the reason for the problem is turnover. The focus has to be on the actually process itself being transparent in order to ensure accuracy. Vice Chancellor Carlson agreed and assured trustees that the focus has been on creating a transparent process. He explained that they had mapped out the process together to discover the extent of the complexity and the variation between processes. He stated that that has changed, it has been streamlined and documented. He added that though they weren't finished yet, this particular incident had raised the awareness and the sense of urgency to a point where he had confidence that they would have systems in place so that the risk of this happening again would be remote.

Trustee Sundin believed there could be another level of accountability beyond human resources where there could be interventions and strategies to discover problems sooner. She also stated that from her personal experience, paying faculty has historically been unusually complex. She added that flexibility had been negotiated with the bargaining units, which added to the complexity. She expressed doubts that an external vendor could be able to understand those complexities, and she hoped that the solutions would come from internally.

Trustee Cowles asked if there had been any modification in the internal audit procedures or scope as a result of learning about these risks. He asked if other areas of risk had been identified in the system that deserved attention. Ms. Buse stated that they had not identified any specific systemwide issues. She added however that Vice Chancellor Carlson and Vice Chancellor Padilla had projects that would look at the academic system and ways to ensure that faculty was being compensated for the courses that were being taught. Ms. Buse added that they would certainly reflect on this special review when they did the audit risk assessment in the coming months. She stated that they do look at payroll when they audit colleges and universities, but that they would look at it in a different light because of how much more her staff had learned about the processes due to the detailed nature of this special review. She further added that Metropolitan State University had specific uniqueness that added complexity to their processes that would not exist for other colleges and universities. Ms. Buse stated that there may be some benefit in revisiting Metropolitan State University at some point in the future to see if they were able to correct and sustain the process.

Trustee Cowles underlined the importance of the systemic dimensions that would need to be wrestled with regarding autonomy versus systemwide culture and accountability. He stated that it would take continued attention, and should be recognized from every standpoint as being very important to deliver on. He added that it was a basic trust with staff and faculty that this process be done correctly.

Chancellor Rosenstone thanked the board for the thoughtful conversation that went beyond the particular issues at Metropolitan State University and raised some critical topics that would need to be revisited. He stated that he would work with committee chairs and the board chair to figure out the best place to have the conversation about autonomy, culture and accountability. He thanked Vice Chancellor Carlson's team for the way they stepped in to bring human resource specialists from around the state, working long days at times, to get the problem understood and fixed as quickly as possible. It was an amazing effort. He noted that the effort took many months and many people contributed to get that work done. He went on to thank Director Buse for her oversight and her suggestions about process changes that Vice Chancellor Carlson and his team have been implementing even before this report was released. Finally, he stated that there was a different management team at Metropolitan State University that was engaged and attentive to issues. He stated that remarkable work was done by Vice Chancellor Carlson's team, by Director Buse's team and by the leadership team that's now in place at Metropolitan State University.

Interim President Devinder Malhotra stated that Metropolitan State University took this issue seriously. He stated that under the leadership of Provost Ginny Arthur the Interim CHRO Sue Raddatz the initial payroll were corrected, and then they began the work of looking at the

processes that had been in place and ways to improve them. He commended Executive Director Buse and Vice Chancellor Carlson for their engagement with the university to help them understand the complexity of the human resource issues. He stated that the issues boiled down to three things. The first was the question of capacity and competence to deliver on the functionality. The second was processes and the procedures which were supportive of that functionality. And third was the communication structure which was able to monitor both the capacity and competence as well as the processes and to make sure that nothing falls through the crack. He stated that in all three areas they had engaged with Vice Chancellor Carlson to ensure that the processes at Metropolitan State were in place. President Malhotra stated that the process for faculty to access information and verify the accuracy about their assignment and payments had already been simplified. He stated that faculty could now check their own payments and assignments in real time. President Malhotra stated that they were looking forward to working with Vice Chancellor Carlson in lending their voice at the table, letting other colleges and universities know what they had learned from the issues, and getting feedback so that they could increase their own efficiencies.

Trustee Krinkie thanked everyone, not only for the work, but for the due diligence to ensure that the issues had been resolved, and that they had accuracy, thoroughness and transparency in the system.

The meeting adjourned at 9:55 a.m.

**MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES**

Agenda Item Summary Sheet

Name: Audit Committee

Date: March 18, 2015

Title: Review Results of Grants Management Audit

Purpose (check one):

Proposed
New Policy or
Amendment to
Existing Policy

Approvals
Required by
Policy

Other
Approvals

Monitoring /
Compliance

Information

Brief Description:

We reviewed internal controls and compliance over grants management. Colleges and universities have authority to apply for and obtain state, federal, and private grants. Each institution is responsible for developing policies and procedures to ensure they comply with numerous grant requirements.

There are five findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Melissa Primus, Audit Project Manager

**BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES**

BOARD INFORMATION
REVIEW RESULTS OF GRANTS MANAGEMENT AUDIT

1 See attached report.

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Date Presented to the Board of Trustees: March 18, 2015

Grant Management:

Internal Control and Compliance Audit

Office of Internal Auditing

March 10, 2015



Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2015-04
Report Classification: Public



Minnesota
STATE COLLEGES
& UNIVERSITIES

Grant Management Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2015-04

Public Release Date – March 10, 2015

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
College and University Presidents

This report presents the results of our internal control and compliance audit of grant management. It contains 5 findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for Professional Practice of Internal Auditing*.

The results of the audit were discussed with the system office and chief financial officers for the seven institutions included in our review on March 2, 2015.

We appreciate the excellent cooperation and assistance that we received from employees at the colleges, universities, and system office.

Beth Buse, CPA, CIA, CISA
Executive Director

Executive Summary

- Colleges and universities have authority to apply for and obtain state, federal, and private grants.
- Institutions and the system office received \$95 million in non-student financial aid grant revenues in fiscal year 2014.
- Institutions have indicated they have been seeking additional grants to offset costs for equipment, research, curriculum changes, meet employer training needs, and build additional partnerships with employers.
- Each institution is responsible for developing policies and procedures to ensure they comply with numerous grant requirements.

Findings

- There is minimal guidance addressing grant management practices (Finding 1).
- Some institution did not have procedures to ensure they complied with time and effort requirements for federal grants (Finding 2).
- Some institutions did not have procedures to ensure they complied with federal conflict of interest requirements. (Finding 3).
- Some grant agreements were not reviewed by general counsel prior to contract execution and two grants exceeding \$3 million were not approved by the Board (Finding 4).
- Delegations of authority were not always in place for those that applied for and signed grant agreements (Finding 5).

Long Term Considerations for System Leaders

- College, university, and system office leaders should consider alternative models for managing grants.

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*The audit was performed by Carolyn Gabel, Craig Fautsch,
Indra Mohabir, and Melissa Primus*

Section I: Background

Overview

Colleges, universities, and the system office (“institutions”) are authorized to apply for and obtain grants. Grants can be awarded for a variety of reasons including academic research, curriculum development, equipment purchases, meet employer training needs and build community partnerships. A common term in education to describe grant participation is “sponsored programs.” Some institutions have a few grants at a given time while others may have many.

Sponsored program funding comes from private, federal, state, or local government entities. As shown in Table 1, during fiscal year 2014 institutions received almost \$95 million in private, state, and federal grant revenue (excluding federal and state student financial aid). This was an increase of almost \$7 million from fiscal year 2013. Federal grants comprised slightly more than 60% of the grant revenue for both fiscal years 2013 and 2014. Table 2 lists the most common federal agencies where institutions have obtained grants.

Table 1
Grant Revenue for Fiscal Year 2014
(In Thousands)

Institution	Federal (1)	State (1)	Private	Total (2)
Alexandria Technical & Community College	\$183	\$294	\$134	\$611
Anoka Ramsey Community College	2,000	570	45	2,615
Anoka Technical College	(3)	0	2	(1)
Bemidji State University	1,926	44	2,470	4,439
Central Lakes College	3,906	420	119	4,445
Century College	2,279	442	398	3,119
Dakota County Technical College	2,001	353	289	2,643
Fond du Lac Tribal & Community College	2,757	107	147	3,010
Hennepin Technical College	2,832	114	335	3,282
Hibbing Community College	795	988	28	1,812
Inver Hills Community College	492	127	359	978
Itasca Community College	1,170	311	1,056	2,536
Lake Superior College	631	88	42	760
Mesabi Community & Technical College	899	159	(3)	1,055
Metropolitan State University	565	1,401	745	2,712
Minneapolis Community & Technical College	3,546	254	326	4,126
Minnesota State College - Southeast Technical	1,303	18	1	1,322
Minnesota State Community & Technical College	638	53	666	1,357
Minnesota State University Moorhead	152	150	2,250	2,552
Minnesota State University, Mankato	2,171	1,457	2,281	5,909
Minnesota West Community & Technical College	308	546	18	872
Normandale Community College	991	80	70	1,141
North Hennepin Community College	639	(1)	58	697
Northland Community & Technical College	3,202	189	298	3,689
Northwest Technical College, Bemidji	166	125	740	1,030
Pine Technical College	3,718	2,073	39	5,830
Rainy River Community College	174	57	17	248

Institution	Federal (1)	State (1)	Private	Total (2)
Ridgewater College	551	140	18	709
Riverland Community College	703	12	97	812
Rochester Community & Technical College	1,915	349	305	2,568
Saint Paul College	694	137	314	1,146
South Central College	820	-	97	917
Southwest Minnesota State University	441	112	1,370	1,923
St. Cloud State University	1,555	595	3,426	5,575
St. Cloud Technical & Community College	2,311	160	77	2,548
System Office	8,741	1,367	881	10,989
Vermilion Community College	346	348	134	828
Winona State University	715	586	2,739	4,040
Totals	\$58,233	\$14,225	\$22,386	\$94,843
Total Percentage	61%	15%	24%	

Notes: (1) Revenue excludes federal and state student financial aid totaling \$375 million in fiscal year 2014. In addition, it excludes contractual sponsored programs.
 (2) Differences due to rounding.

Shading represents the five institutions with the largest revenues in each column.

Source: Supplement to the Annual Financial Report for the years ended June 30, 2014 and 2013.

Table 2
Federal Agencies MnSCU has Obtained Grants

Federal Agency	# of Institutions
Department of Education (non-financial aid)	37
Department of Labor	25
National Science Foundation	22
Department of Health and Human Services	15
Department of Transportation	12
Department of Agriculture	11
National Aeronautics and Space Administration	9
Small Business Administration	7
Department of Defense	5
Department of Energy	4

Source: ISRS Accounting Data (Open grants from fiscal year 2012 through February 2015)

Common sources of state grants include the Minnesota Department of Employment and Economic Development, the Iron Range Resources and Rehabilitation Board, and the Department of Health and Human Services. Examples of private grants include the Bush Foundation, Bremer Foundation, and the Blandin Foundation.

Roles and Responsibilities

Each institution is responsible for managing their own grants. The grant process is comprised of primarily two cycles: pre-award and post award. The pre-award process involves proposal development, review, approval, and submission. The post-award process includes administration of grant activities through the close-out of the grant. Most institutions do not have a grant office or a dedicated grant accountant to support grant activities. A few, including Minnesota State University, Mankato and St. Cloud State University, have a grants office (sponsored programs) that supports faculty and staff from the pre-award through the post-award stages.

A significant responsibility of grant management is ensuring compliance with grant provisions. Grants, especially federal grants, can have many compliance-related requirements. The federal Office of Management and Budget (OMB) has issued three government-wide circulars to ensure proper stewardship of federal research funds for higher education institutions:

- OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- OMB Circular A-21 Cost Principles for Higher Educational Institutions
- OMB Circular A-133 Audits of State, Local Governments and Non-profit Organizations

Minimally, institutions that receive federal grants would be required to follow the three OMB circulars listed above. Specific federal agencies may have additional requirements. For example, the National Institute of Health (NIH) and National Science Foundation (NSF) have each issued policy guides¹ to provide prescriptive guidance related to their grants. Finally, additional requirements may be included in individual grant agreements.

Examples of federal grant requirements include:

- Time and effort reporting and certification,
- Reporting deviations from budget and program plans to the grantor (some may require prior or written approval),
- Maintaining written standards of conduct for employees that administer contracts,
- Cost principles to determine if a grant expense is allowable or unallowable,
- Ethical and responsible research activities involving human and animal subjects, and
- Varying financial and performance reporting requirements.

Managing and complying with grant provisions can be further complicated by a recent trend of multiple institutions partnering to receive grant funds.

On December 26, 2013, OMB issued final guidance, known as the “Super Circular” or “Omni Circular.” This new circular supersedes eight existing OMB Circulars including the three circulars related to higher education federal research funds. The new guidance is effective for entities with fiscal years beginning on or after December 26, 2014.

Grants obtained from state agencies or private funds do not need to follow the above OMB requirements. State grants have requirements related to purchasing, conflict of interest,

¹ The National Institute of Health issues NIH Grants Policy Statements and The National Science Foundation issues NSF Proposal and Award Policies and Procedures Guides.

reporting, and auditing. However, private grants may simply require the grantee to spend the funds within a specified timeframe and submit a report to the grantor.

Sponsored research or sponsored programs may also be funded via a negotiated contractual arrangement rather than a grant agreement. For example, a private corporation may contract with a university to conduct specific research or a local government may contract with a college to conduct a survey. If funding for the activity originates from a federal or state grant, the college or university would be required to follow applicable grant requirements.

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Objectives

The objectives for this audit were to answer the following questions:

- Were college and university internal controls adequate to ensure:
 - The grant pre-award process included proper reviews and approvals,
 - The grant post-award process included oversight to ensure grants are properly managed and comply with required grant provisions.
- Do opportunities exist for management to improve grant management activities to make them more effective and efficient?

Scope and Methodology

We selected seven institutions to review current internal controls over grant activity. The areas of focus included:

- The process for vetting and accepting grants,
- Reviewing policies and procedures for key areas of post-award administration of federal grants such as time and effort reporting, conflict of interest, cost sharing, sub-recipient monitoring, and fiscal administration,
- Training provided to faculty or staff involved in administering grants,
- Compliance requirements related to conflict of interest, time and effort reporting, sub-recipient monitoring, and indirect costs.

We did not test individual grant activities for compliance with grant provisions, such as financial reporting, grant purchases, and meeting grant objectives.

We surveyed each institution to identify current internal controls. We reviewed relevant documentation including MnSCU system policies, procedures, and guidelines and any institution specific policies and procedures. We obtained and analyzed grant data. Finally, we selected one grant per institution and reviewed supporting documentation.

Conclusions

- Colleges, universities, and the system office are applying for and receiving a variety of grants, including state, federal, and private grants.
- Grant requirements vary by the type of grant received. Specifically, federal grant compliance requirements are more uniform, numerous and complex, state grants have some uniform compliance requirements, and private grants requirements are based on the individual grantor.
- Most institutions do not have dedicated resources (grant office or grant accountant) focused on the management of grants.
- Finding 1 focuses on the lack of guidance over management of grants.
- Findings 2 and 3 describe concerns with two federal grant compliance requirements
- Findings 4 and 5 describe compliance concerns with board policy and system procedure.
- Section IV discusses a long term consideration for college, university, and system office leaders for management grants in the future.

Section III – Audit Findings and Recommendations

1. There is minimal guidance addressing grant management practices.

System Guidance

There are no system procedures or guidelines related to grant management practices such as the grant approval process, financial conflict of interest, cost sharing, and training for faculty and staff that work on grants. There is one board policy related to grants:

Board Policy 7.7 Gifts and Grants Acceptance discusses that institutions are authorized to accept grants and only a President or designee can submit a request for a grant.

Other board policies and procedures exist for areas applicable to grants including delegations of authority, travel expense, contracts and procurement, and purchasing cards.

In addition, Board Policy 7.7 requires grants over \$50,000 to be reported to the Board. However, this reporting is not done.

College and University Guidance

Given limited system guidance, institutions must develop their own grant-related policies and procedures. When asked what policies and procedures were followed, two universities cited their own grant policies and procedures where the other institutions cited their general purchasing policies and procedures or MnSCU general policies and procedures. Some institutions also cited federal grant policies and guidance or federal circulars.

While federal grant policies and circulars often provide general guidance, they also require institutions to have their own written procedures. For example, OMB Circular A-110 requires that recipients shall provide written procedures related to 1) code of conduct, 2) minimizing the time lapse related to transfer of funds, 3) determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable

Federal cost principles and terms and conditions of the award, and 4) written procurement procedures.

While two universities had developed relatively comprehensive grant policies and procedures specifically, it was noted they still lacked some details. For example, OMB Circular A-110 requires institutions provide written procurement standards that address 1) purchasing unnecessary items, 2) analyzing lease versus purchasing (when appropriate), and 3) including six minimum requirements related to solicitation for goods and services. We did not see these items addressed in their policies and procedures.

Finally, we noted no system or institution guidance on vetting and applying for grants. While institutions generally included positions such as department chairs, deans, provosts, and finance positions to review the grant requirements and proposals, most did not routinely include legal counsel or information technology (IT) in their reviews. During planning work for this audit, we discussed a grant that had been awarded to an institution, without review by IT, that later needed to be declined because it would have involved an institution-funded IT investment of over \$200,000 to meet the grant requirements.

Recommendations

- *College, university, and system leaders should consider what guidance is needed related to grant management practices. Areas for consideration should include:*
 - *Whether guidance should be at the system or institution level,*
 - *Grant application and award process, and*
 - *Post award process including responsibilities to meet required grant provisions.*
- *The Finance Division should ensure grant reporting is completed to the Board of Trustees as required by Board Policy 7.7 Gifts and Grants or recommend revisions to reporting requirements within the policy.*

2. Some institutions did not have procedures to ensure they complied with time and effort requirements for federal grants.

Federal regulations² require institutions to certify time and effort for employees that work on a grant. Time and effort reports must be prepared for all employees that work on the grant and be signed by someone with first-hand knowledge to certify the work was performed. We discussed time and effort reporting with each institution in our sample and reviewed six federal grants. We identified issues at four of the six institutions:

- Reports were not signed certifying work was performed (*two institutions*).
- Reporting was not performed for faculty or staff that worked full-time on a grant because staff did not think the reports were needed when employees worked full-time on a grant (*two institutions*).

² OMB Circular A-21 discusses time and effort requirements.

- Reports were not prepared as often as required for hourly-paid employees (*one institution*).
- Reports did not properly include all time worked on the grant for two hourly-paid employees (*one institution*).

Recommendation

- *Institutions should have procedures to ensure they comply with federal time and effort requirements including:*
 - *certifying time and effort reports for all employees that work on federal grants, and*
 - *verifying time and effort reports are complete and include all time for the reporting period.*

3. Some institutions did not have procedures to ensure they complied with federal conflict of interest requirements.

Five institutions rely on Procedure 1C.0.1 Employee Code of Conduct and Ethics for their conflict of interest procedures for federal grants. However, the procedure was not designed to meet federal grant requirements and in some ways does not contain required provisions.

Conflict of interest requirements vary depending on the type of federal grant. OMB circular A-21 requires that institutions maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts or sub-agreements and include disciplinary actions for violations. National Science Foundation (NSF) and National Institution of Health (NIH) have additional and more prescriptive requirements. NSF and NIH requires the following:

- The institution must have a policy to disclose significant financial interests by the investigator and co-investigator (principal researchers) and their immediate family that would appear to be affected by the research or activities funded.
- The institution must ensure all investigators have provided the disclosures before the grant proposal is submitted.
- The institution must update disclosures annually or more frequently if new reportable significant financial interests change.
- The institution's policy must designate one or more persons to review the disclosures and determine needed conditions or restrictions.
- The institution's policy must also provide sanctions to enforce the policy and procedures to inform grantors if grantee is unable to manage the conflict.
- Institution must ensure investigators complete conflict of interest training prior to beginning research and at least every four years thereafter (NIH requirement only).

We noted that one institution met the requirements of OMB Circular A-110 and the additional provisions for NSF and NIH grants. This institution follows the same conflict of interest procedures for all grants, regardless of funding source. Five institutions that received

NSF grants did not have sufficient procedures. Although not required, one institution required annual code of conduct training.

Recommendation

- *Institutions should have procedures to ensure they comply with conflict of interest requirements including developing written conflict of interest standards and include disciplinary actions for violations.*

4. Some grant agreements were not reviewed by system legal counsel prior to contract execution and two grants exceeding \$3 million were not approved by the Board of Trustees.

Board Policy 5.14 Contracts and Procurements requires that contracts, including grant agreements, not prepared on MnSCU templates be reviewed and approved in advance by general counsel or the attorney general's office. Six grants were not properly reviewed and approved in advance, as required.

Grant agreements are considered legally binding contractual agreements; however, many colleges and universities indicated they did not think the contract templates applied to grant agreements. Discussions with staff from the Office of General Counsel and the Finance Division confirmed that the requirements of Board Policy 5.14 Contracts and Procurement apply to grants. Board Policy 5.14 was recently updated (November 2014) to make this clear.

Board Policy 5.14 previously required contracts, including grants, exceeding \$3 million be approved by the board. Two federal grants reviewed exceeded \$3 million and were not reviewed by the board. Both institutions indicated they were not aware of the past requirement. Subsequently, the policy was changed to no longer require state and federal grants exceeding \$3 million be approved by the board. Private grants still have the requirement.

Recommendations

- *Before signing, institutions should ensure they obtain prior approval by general counsel or the attorney general's office if grant agreements are not prepared on MnSCU templates.*
- *Institutions should ensure they seek prior approval from the Board of Trustees for private grants exceeding \$3 million.*

5. Delegations of authority were not always in place for employees that applied for grants and signed grant agreements.

System Procedure 1A.2.2 Delegation of Authority requires employees submitting grant proposals and signing grant agreements to be delegated the authority by college and university presidents. Appropriate delegations were not in place for two of the seven grants reviewed. At two institutions, the employees that submitted the grant proposals did not have delegated authority for grants. At one of the institutions, the employee that signed the grant agreement did not have delegated authority for contracts.

Recommendation

- *Institutions should ensure that employees applying for grants and signing grant agreements have been delegated the appropriate authority.*
- *As recommended in the purchasing card audit, the system office should consider collaborating with colleges and universities to evaluate developing a system to more effectively and efficiently manage Delegations of Authority. A new ISRS module or other automated system could be used to initiate or change delegations, route them for approvals, periodically review and recertify delegation, and provide other reporting capabilities.*

Section IV – Long Term Considerations for Leaders

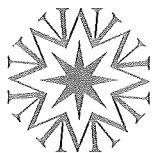
College, university, and system office leaders should consider alternative models for managing grants by leveraging the knowledge of larger institutions with more mature processes.

Grants are complex, contain numerous requirements, and are a growing source of funding for institutions. Each institution is responsible for managing grants on their own and often have limited knowledgeable staff. Two universities, Minnesota State University, Mankato and St. Cloud State University (SCSU) have more mature grants management processes. They both have research and sponsored programs departments dedicated to supporting employees during the pre-award and post-award process for sponsored programs. Both have developed policies and procedures related to the grants process. Smaller colleges and universities rely on staff who have other responsibilities to take on grant management activities and are relying on other policies and procedures that may not meet grant requirements.

During meetings with colleges and universities, we asked whom institutions turn to when they have questions related to grants. Most indicated they contacted the granting agency and some indicated they would seek information from their counterparts at other MnSCU colleges and universities. MSU, Mankato and SCSU also indicated they belong to a professional organization for college and university research administrators and it has been a valuable resource. Leaders should consider adding tools for sharing information among each other including email lists, websites and software such as SharePoint, for institutions to ask questions or provide tips related to grant management.

Section V – Management’s Response

Management response follows:



Minnesota
STATE COLLEGES
& UNIVERSITIES

March 10, 2015

Board of Trustees
Chancellor Steven Rosenstone
Minnesota State Colleges and Universities

The Office of the Internal Auditing has completed an internal control and compliance audit of college and university grant management. This was undertaken as an approach to auditing particular business cycles across all colleges and universities. We view the completed audit as a helpful contribution of our understanding of the system and the campus control environment. The audit identified some instances of internal control deficiencies and a few examples of noncompliance were noted." (Page 6 of report)

Management of the system office and the colleges and universities have already undertaken remedies for some of these findings. Additional follow up work will continue in the upcoming months. Additionally, a work group of campus business and grant managers will be formed to look at some of the process improvements and best practice suggestions identified in the report. The comments concerning the system guidance in board policy 7.7 Gifts and Grants Acceptance are already being worked on as part of our five year cycle review of all policies and procedures.

The auditor's overall conclusion of confidence in the control environment serves as assurance to the Board of Trustees, Chancellor Rosenstone and the public that care and stewardship are exercised in all areas as it relates to grant management across the system.

Warm regards,

Laura M. King
Vice Chancellor - CFO