

MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES
AUDIT COMMITTEE MEETING MINUTES
April 22, 2015

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

Audit Committee Members Absent: Trustee Ann Anaya

Others Present: Trustees Margaret Anderson Kelliher, Kelly Charpentier-Berg, Alexander Cirillo, John Cowles, and Maleah Otterson.

The Minnesota State Colleges and Universities Audit Committee held its meeting on April 22, 2015, 4th Floor McCormick Room, 30 East 7th Street in St. Paul. Chair Krinkie called the meeting to order at 8:02 a.m.

1. Minutes of March 18, 2015

The minutes of the March 18, 2015 Audit Committee were approved as published.

2. Internal Audit Update

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, began by introducing Mr. Ross Berndt, Associate Vice Chancellor of Information Technology. Mr. Berndt read a prepared public statement concerning the Metropolitan State University security incident of January 2015 on behalf of Vice Chancellor Ramon Padilla, Chief Information Technology and Chief Information Officer, who was unable to be at the committee meeting.

Trustee Hoffman asked if there had been any incidents reported as a result of the breach. Mr. Berndt stated that there had not been any resulting incidents. Ms. Buse agreed.

Trustee Krinkie stated that it was an unfortunate situation but that he thought the system office and the campus security staff had responded to the breach appropriately.

3. Results of Minneapolis Community and Technical College Internal Control and Compliance Audit.

Ms. Buse stated that copies of the report had been e-mailed to trustees the prior week and were being made public at the committee meeting. She added that this was the first internal control and compliance audit completed this fiscal year, but that audits were being conducted at Minnesota State University, Mankato and Dakota County Technical College and would be presented to the committee in the coming months.

Ms. Buse thanked her team for the work they did on the audit. She also thanked the Minneapolis Community and Technical College business office staff and the human resources staff for their work. Ms. Buse introduced Mr. Eric Wion, Deputy Director of the Office of Internal Auditing.

Mr. Wion reiterated his appreciation of the college staff for their cooperation and assistance throughout the audit process. He also acknowledged the good work of Mr. Scott Erickson, Vice President of Finance, as well as Mr. Chris Rau, Director of Finance at Minneapolis Community and Technical College.

Mr. Wion reviewed the audit objectives and scope and methodology. He stated that the college generally had adequate internal controls to ensure it safeguarded receipts and other assets, properly paid vendors and employees in accordance with management's authorization,

Mr. Wion noted that the report identified seven audit findings, many of which could be categorized as opportunities for improvement. He reviewed finding one which included errors that resulted in three faculty being over paid approximately \$35,000. Mr. Wion noted that faculty pay can be very complicated and requires significant coordination between academics and human resources. He stated that once the college was notified of this error, they immediately worked to verify the results and began the process of collecting the overpayments. The report recommended that the college should do additional analysis to see if there are more errors. In their response the college stated that they had reviewed severance pay as well faculty assignments and they did not find additional errors.

Trustee Krinkie asked about the sample size for the audit. Mr. Wion stated that they had sampled about ten faculty assignments over multiple years. Ms. Buse noted that in addition to the sampling of severance payments that were done, the college had gone back and reviewed all of the severance payments.

Trustee Vizenor asked if the staff or faculty received a report or statement that would let them track the accuracy of their pay prior to errors being found. Ms. Buse stated that there had been improvements made to the system since the Metropolitan payroll incident occurred a year and a half ago. It is easier now for faculty to review their pay. In this instance, the significant severance overpayment was complicated because some of that payment went into a health care savings account, which made it more difficult for the faculty member to identify the error.

Trustee Benson asked if the students and faculty were better served under the current structure of audits than when individual institutions were responsible for their own audits prior to the merger. Ms. Buse stated that prior to merger and even into merger, there was more frequent internal control and compliance audits, but there the overall internal controls that were in place in those days were not as good as they are now. As internal controls were improved, and the system saw improvement in the reports, internal control audits were conducted less frequently. Ms. Buse noted that the committee had evaluated that about a year ago and determined that it was time to go back and do those reviews in more detail again. She further noted that while they were not finding significant issues, it has been helpful and the presidents are requesting that they would like to see more frequent internal control and compliance audits. The materiality threshold in internal control and compliance requirements is much shallower than with financial statement audits.

Ms. Laura King, Chief Financial Officer, agreed and stated that at the time of merger, the only internal audit function in state government was provided by the Office of the Legislative Auditor. The function did not exist internally until the board established it after the merger under Trustee Vekich's leadership. The Office of the Legislative Auditor did a rotation, and then the system paid them additional resources to do more rotations inside MnSCU, until about four years ago. She added that at the same time the administration environment was being built which didn't exist the way that it is being executed now at any of the separate systems. Ms. King stated that the question the board will have to consider for the future is how much it wants to spend to get assurance and how much assurance is necessary for their comfort.

Trustee Hoffman asked if the college had been able to recover the overpayments. President Mills-Novoa stated that they were still in the process of trying to recover that overpayment.

President Mills-Novoa thanked the auditors for doing a wonderful job. He stated that it was a good process for the college to engage in to improve the controls internally in the college. He noted that over the last few years the college had a fair amount of turnover in staff, and one of those turnovers was in human resources which played a part in what caused the overpayments as staff moved in and out. He added that they were diligently moving forward to correct all the oversights and to make improvements that will give them stronger internal controls.

Trustee Krinkie acknowledged the tremendous amount of work done by the staff at the college. He reminded members that compared to the overall number of dollars flowing through the institution, the number of minor issues that had been discovered, spoke to the competency and the processes that were in place and the work that everyone had done to ensure that we have a good and clean system. He thanked Ms. Buse and her staff as well as President Mills-Novoa and his staff for their hard work.

The meeting adjourned at 8:31 a.m.