

**MINNESOTA STATE COLLEGES AND UNIVERSITIES**  
**BOARD OF TRUSTEES**  
**AUDIT COMMITTEE MEETING MINUTES**  
**May 20, 2015**

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**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 Kelly Charpentier-Berg, Alexander Cirillo, Maleah Otterson, Tom Renier, and Elise Ristau.

The Minnesota State Colleges and Universities Audit Committee held its meeting on May 20, 2015, 4<sup>th</sup> Floor McCormick Room, 30 East 7<sup>th</sup> Street in St. Paul. Chair Krinkie called the meeting to order at 8:03 a.m.

**1. Minutes of April 22, 2015**

The minutes of the April 22, 2015 Audit Committee were approved as published.

**2. Proposed Amendment to Policy 1D.1 Office of Internal Auditing (First Reading)**

Ms. Beth Buse, Executive Director of the Office of Internal Auditing, began by sharing with the committee that the month of May was internal audit awareness month.

Ms. Buse explained that most of the proposed changes to board policy 1D.1 were to streamline the policy language, but there were also changes that would bring the audit charter contained in the policy into compliance with the standards for internal auditing. Trustee Krinkie stated that he had read through all of the proposed changes and agreed that they were either to clean up language or to ensure compliance with national auditing standards. He noted the policy referred to MN Statute Chapter 13, and he asked for clarification. Ms. Buse stated that the statute referred to the Minnesota government data practices act, which mentions internal audit data, and states that while audit work is in progress the data is not public.

Trustee Otterson noted that she thought having the proposed changes in red, in addition to strikeout and underlined text, made it easier to read.

**3. Results of Financial Aid Audit.**

Ms. Buse introduced Mr. Don Loberg, Partner with CliftonLarsonAllen LLP, Ms. Brenda Scherer, Audit Manager with CliftonLarsonAllen LLP, and Mr. Christopher Halling, System Director for Financial Aid.

Ms. Buse presented overview material on the single audit and explained that this was an annual report that was required by federal law and focused on major federal programs. The

Office of the Legislative Auditor identified student federal financial aid as the only major federal program for the system. The audit work, which was performed by CliftonLarsonAllen was compiled into a State of Minnesota Single Audit report. That report is required to be issued by March 31 each year.

Ms. Buse reminded the committee that two years ago, the results of the fiscal year 2012 audit had not been submitted in a timely way. MnSCU had completed and submitted its work timely, however, because those results are incorporated into the State of Minnesota's report and their report was submitted late, MnSCU was sanctioned for five years. Ms. Buse stated that those sanctions would be in place for another three years and that they do create extra work for the colleges and universities in administering their federal financial aid programs.

Trustee Krinkie asked if there were any consequences associated with the sanctions. Ms. Laura King, Chief Financial Officer, stated that the sanctions added a requirement under federal regulation that MnSCU alter its practices used to draw down reimbursement for federal financial aid. The regulation is called heightened cash management.

Mr. Halling also noted that the sanctions affect a small number of students who seek financial aid for new programs. When the system is not under sanctions, funding for students can begin immediately. Under the sanctions, the system has to wait to receive the approval from the Department of Education before providing funds to students in those programs. The Department of Education can take anywhere from four to nine months to approve those programs, so it is possible that for the first term a program is offered, those students wouldn't receive financial aid funding.

Ms. Buse reviewed federal financial assistance for the last ten years. Trustee Benson noted that MnSCU was dependent on the federal financial assistance program. He asked how the system compared to other states. Mr. Loberg stated that it was very common for states to be dependent on federal financial assistance. He noted that many states had a 80-90% participation rate in state and federal grants. Ms. King clarified that MnSCU's federal financial aid participation rate was in the low 60%. Chancellor Rosenstone added that within the PELL program the system was closer to 38%. Ms. King reminded trustees that the system's dependency on the federal financial aid program was an enterprise risk.

Trustee Krinkie asked about the average student loan amount. Mr. Halling stated that Mr. Craig Schoenecker, System Director for Research, would have that information, and it could be provided to the committee. He cautioned that information average packages or average borrowing could be useful but there also may not be many students who were at the average.

Trustee Krinkie asked if the decline in federal financial aid grants was due to declining enrollment or because there was less money being borrowed. Ms. Buse stated that the system had seen a decline in enrollment, but she added that she would have Mr. Schoenecker look at the averages to determine individual student activity. Mr. Halling stated that he had had conversations with the Department of Higher Education, and he thought there were a combination of factors. Enrollment was down so there were fewer people needing to borrow,

and employment was up, so their ability to contribute meant they were not able to borrow quite as much.

Ms. Scherer stated that when CliftonLarsonAllen reviewed the fiscal year 2014 Federal Student Financial Aid they were looking at all the institutions as one. She stated that there were five findings in the report, all of which were insignificant. Ms. Scherer reviewed the findings.

Ms. Buse noted that in 2013 there were two audit findings and both of them had been resolved.

Ms. Buse provided some historical perspective on questioned costs over the previous nine years. She noted that the financial aid administrators and the business office staff across the system had done a phenomenal job to consistently have such low questioned costs in the audits over the past several years. She did caution however, that it was important to remember that with 600 compliance regulations, if there were a significant violation in one of those compliance issues at a systemic level, the questioned cost numbers could add up quickly. She stressed the importance of staying on top of issues and understand regulations so that a systemic error didn't occur.

Ms. Buse stated that the U.S. Department of Education conducted three program reviews in the past year. The report on Minneapolis Community and Technical College was issued in December, there were three minor findings and no questioned costs. The report on Saint Paul College was issued in December and there were no findings. The report on Century College had not been issued yet, however Mr. Halling indicated that the reviewers thought it would be a clean report.

Ms. Buse continued with a brief background on the financial aid work that was done by the Minnesota Office of Higher Education. She stated that the most recent information provided by their office was for fiscal year 2013, and that work was done at an individual college or university level. Trustee Hoffman noted that MnSCU received about 40% of the state grant dollars for 60% of the students. Mr. Halling confirmed and stated that over the course of ten years, progress had been made to get some of the rules changed for how the money was calculated and spent, but there was still a great disparity. Trustee Hoffman expressed his displeasure at the inequity.

Trustee Charpentier-Berg asked if participation of the part-time student grant impacted the system's numbers. Mr. Halling stated that about \$20 million of the increase in 2013 was due to the pilot program for part-time working students. He added that some of the increase was due to the fact that more money was put into the overall state grant program.

Ms. Buse provided background on the Minnesota Office of Higher Education audit work. She stated that they conduct audit work on individual colleges and universities. She noted that MOHE had changed their audit approach in the last year to include more sampling and they were primarily conducting desk audits, rather than visiting the campuses. Ms. Buse stated that the approach allowed them to get additional coverage without travel, but it was

resulting in some tension with campuses across the state. She added that she was working with Mr. Halling and the financial aid directors on the relationship with MOHE and easing some of that tension.

Ms. Buse provided a summary of the last several years of activities as it relates to MnSCU campuses. In 2015, MOHE issued seven reports of MnSCU colleges and universities with 58 total recommendations and questioned costs of just over \$14,000. Mr. Halling pointed out that recommendations were not the same as audit findings. In many cases the system believes they are in compliance or exceeding expectations, however he noted that MnSCU takes all recommendations into account. Ms. Buse noted that they were working with the MOHE audit staff to provide feedback and she added that they had been very open to that feedback.

Ms. Buse reviewed a summary of observations from the Minnesota Office of Higher Education audit director. She stated that most of the program specific issues were noted in child care and state grant programs. She added that most of audit findings were a result of manual calculation errors or incomplete information for determining program eligibility. Ms. Buse stated that the Office of Internal Auditing does follow-up work on all findings.

Mr. Loberg stated that it was not easy to go through an audit of federal financial aid, there were so many compliance requirements and nuances. The fact that MnSCU had very few findings was a very positive report. He added that board should be proud of the staff across the system. Mr. Halling added that there were over 1,200 pages in the Department of Education federal handbook. He stated that the financial aid directors were doing an extraordinary job out at the institutions, as well as the business offices and the registrars. He congratulated them for their work.

President Pat Johns, Lake Superior College, reinforced that appreciation. He stated that not only were there a huge number compliance regulations, but they changed annually, which required staff to continually stay updated. He further added that the financial aid staff deal with students on a regular basis, build positive relationships, and have many opportunities for contentious discussions and they manage all of that very well across the system. He applauded their work. President Johns stated that in many cases he believe the classifications of these employees were not commensurate with the responsibility, and the level of financial risk the system had in this area.

Trustee Krinkie added his appreciation for the work done by Mr. Hallings, Vice Chancellor King and her staff, and CliftonLarsonAllen. He noted that the audit results proved the point that MnSCU had very dedicated and competent staff doing great work.

The meeting adjourned at 8:56 a.m.