

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.