State University Personnel and Payroll
Internal Control and Compliance Audit

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

This report presents the results of our internal control and compliance audit of state university personnel and payroll expenditures. It contains nine findings and recommendations to assist system office and university management in improving business processes, controls, and accountability. In addition, information on two areas is provided for system leaders to consider for potential future change.

We conducted this audit in accordance with the Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing.

The results of the audit were discussed with system office and state university leadership on June 5, 2012.

We appreciate the excellent cooperation and assistance that we received from university and system office employees.

Beth Buse, CPA, CIA, CISA
Executive Director

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Background</td>
<td>2</td>
</tr>
<tr>
<td>II. Audit Objectives, Scope, Methodology and Conclusion</td>
<td>3</td>
</tr>
<tr>
<td>III. Audit Findings and Recommendations</td>
<td>4</td>
</tr>
<tr>
<td>IV. Long-Term Considerations</td>
<td>10</td>
</tr>
<tr>
<td>V. Response</td>
<td>14</td>
</tr>
</tbody>
</table>

The audit team was led by Melissa Primus and included the following audit staff: Carolyn Gabel, Craig Fautsch, Kim McLaughlin, and Marita Hickman

Executive Summary

Background
- State university payroll expenditures were $534 million in fiscal year 2011.
- Administration of personnel and payroll activities is complex.
- Each university is responsible for managing and processing personnel and payroll transactions.
- System office employees manage the HR system and provide assistance and guidance to universities.

Conclusion
- Universities generally had adequate internal controls over processing personnel and payroll transactions and generally complied with MnSCU policies and finance-related legal provisions.

Findings and Recommendations
- Institutions inaccurately paid some employees upon separation (Finding 1).
- The HR system inaccurately accrued leave for some faculty (Finding 2).
- System security was not limited for some employees (Finding 3).
- Improvements are needed for managing faculty workload (findings 4, 5, and 6).
- Some enhancements could improve payroll and HR processing (Finding 7, 8 and 9).

Future Considerations for System Leaders
- Faculty sick leave management
- On-line course compensation and workload
Section I: Background

MnSCU’s total fiscal year 2011 expenses for salaries and benefits were approximately $1.25 billion of which universities totaled about $534 million or 43% collectively.¹

Table 1: Fiscal Year 2011 University Salary and Benefit Expenditures

<table>
<thead>
<tr>
<th>University</th>
<th>Salaries and Benefits Expense</th>
<th>Percent of Total University Salaries and Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bemidji State University (BSU)</td>
<td>50,465,000</td>
<td>9%</td>
</tr>
<tr>
<td>Minnesota State University, Mankato (Mankato)</td>
<td>125,539,000</td>
<td>24%</td>
</tr>
<tr>
<td>Minnesota State University Moorhead (Moorhead)</td>
<td>62,034,000</td>
<td>12%</td>
</tr>
<tr>
<td>Metropolitan State University (Metro)</td>
<td>45,829,000</td>
<td>9%</td>
</tr>
<tr>
<td>Southwest Minnesota State University (SMSU)</td>
<td>30,977,000</td>
<td>6%</td>
</tr>
<tr>
<td>St. Cloud State University (SCSU)</td>
<td>142,467,000</td>
<td>27%</td>
</tr>
<tr>
<td>Winona State University (WSU)</td>
<td>76,522,000</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$533,833,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The Board of Trustee’s approved an internal control and compliance audit of university personnel and payroll as part of the Office on Internal Auditing’s fiscal year 2012 audit plan.

Each university is responsible for managing and processing personnel and payroll transactions. The system office ITS Division manages a human resource (HR) system (SCUPPS) which interfaces with the State of Minnesota payroll system (SEMA4). SCUPPS is one of many modules within the Integrated Student Record System (ISRS). The system office HR and Finance Divisions provide assistance and guidance to universities.

The variety and complexity of bargaining agreements makes administering personnel and payroll activities challenging. The largest employee group is faculty whose employment provisions are detailed in the Inter Faculty Organization (IFO) Master Agreement (referred to hereinafter as the “IFO Agreement”). Appendix A includes examples of classified and unclassified employee positions and associated bargaining agreements; in addition, the appendix includes the number of employees within each bargaining agreement at June 30, 2011.

Appendix B cites several relevant terms related to state university employee compensation.

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

Objectives

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

- Were internal controls adequate to ensure that each university accurately compensated employees, maintained accurate leave records, and properly recorded payroll transactions in the accounting system in accordance with management’s authorizations and complied with applicable policies, procedures and employee bargaining agreements and contracts?
- For the items tested, did each university comply with significant finance-related legal requirements including applicable policies, procedures, and employee bargaining agreements and contracts?

Scope


- All state universities except Metropolitan State University. Metro was excluded because the Office of the Legislative Auditor conducted an internal control and compliance audit which included personnel and payroll expenditures. The OLA’s report was issued in January 2012.

- Areas of focus:
  - User security access to payroll and HR systems (SEMA4 and SCUPPS)
  - Base assignments and salaries (classified and unclassified employees)
  - Supplemental assignments – (applicable for faculty with pay above their base pay)
  - Leave records (unclassified employees)
  - Separation pay (classified and unclassified employees)

Methodology

To answer these questions, we interviewed university employees and reviewed relevant documentation, including policies, procedures, or guidelines, and internal control documentation to gain an understanding of each university’s controls. We considered risks of fraud and errors and potential noncompliance with finance-related legal requirements in designing our audit approach. We analyzed data to identify unusual transactions or significant changes. We reviewed security access to identify transactions that university staff can initiate, approve or process to determine whether access is based on need and duties are adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether the university’s controls were effective and if the transactions complied with policies, procedures, guidelines and bargaining agreements and contracts.
Overall Conclusion

State universities generally had adequate internal controls to ensure they accurately compensated employees, maintained accurate leave records, and properly recorded payroll transactions in the accounting system in accordance with management’s authorizations. For items tested, the universities generally complied with applicable policies, procedures and employee bargaining agreements and contracts. However, we identified some control deficiencies and non-compliance with MnSCU requirements as discussed in Section III: Audit Findings and Recommendations.

In section IV, we provide information on two topics, faculty sick leave management and on-line course compensation and workload that system leaders will want to review to determine whether future changes are needed.

Section III – Audit Findings and Recommendations

1. Universities and colleges inaccurately paid some employees upon separation; we also noted some control deficiencies related to employee separation pay at universities.

Board Authorized Employee Separation Incentives (BESI) were offered to some employees during fiscal years 2009 through 2012. Some of the BESI payments were not accurately calculated or paid. The system office HR division leadership alerted us that some BESI payments were not accurate due to errors. A template (BESI calculator) was developed to assist institutions in determining the BESI payments. The BESI calculator contained an error for computing the employer portion of FICA and Medicare withholdings. This error affected employees that reached the maximum annual FICA and Medicare withholding limit of $106,800, causing underpayments to those employees. The system office HR division created a revised BESI calculator for institutions to correct the error. This error occurred at 11 colleges and universities and the system office and may have impacted over 70 separated employees. The system office HR division recommended each college and university review all BESI payments and correct any errors by June 30, 2012.

Unrelated to the error described above, two universities overpaid BESI payments to employees for the amount equal to the employer share of FICA and Medicare withholdings. One of these universities also inaccurately calculated its deposit to the employee’s Health Care Savings Plan because it used an incorrect monthly insurance premium to compute the deposit. Both universities are working to remedy the combined overpayments of approximately $165,000.

We also noted the following items related to employee separation pay:

- Independent reviews of severance calculations were not always performed. An independent review would help ensure that employees were eligible for severance payments, the calculations were accurate, and payments were accurately entered.
- Employee leave records were not always reduced by the amount of leave liquidated for separation payments. Compensated absence liability balances are inflated if leave records are not reduced for leave paid out.
• One university did not retain documentation to support its severance calculations.
• Standard templates or other tools were not available for institutions to use in determining severance pay eligibility or calculating severance payments. Eligibility for severance pay and the severance calculations vary by bargaining contract. Standard templates would help ensure consistency when calculating severance payments.

**Recommendations**

- The system office should continue to work with institutions to ensure BESI overpayments and underpayments are corrected.
- Universities should perform an independent review of severance payment calculations.
- Universities should reduce employee leave records for the amount of leave paid out at the time of separation.
- Universities should retain documentation to support separation payments.
- The system office should work with the universities to develop templates or other tools to calculate severance eligibility and payments for the various bargaining agreements.

2. The HR system did not accrue sick leave for faculty in compliance with the IFO Agreement.

The IFO Agreement allows faculty to earn nine days of sick leave in an academic year (4.5 days per term) plus three additional days for summer sessions (12 days total). However, due to an interpretation error, faculty who did not have summer appointments but did have additional assignments during the academic year were allowed to accrue up to 12 days of leave; therefore, exceeding the nine day maximum for employees without a summer appointment. Furthermore, a programming error caused some faculty with summer appointments to earn leave in excess of 12 days. In fiscal year 2011, approximately 90 faculty accrued more than 12 days each. This error could result in faculty receiving sick leave benefits or separation compensation they are not eligible for.

We also noted some additional errors related to leave accruals. Two universities misinterpreted the plan or contract language for initial balances when three employees moved between plans resulting in employees accruing more leave than eligible. In addition, another university did not accrue leave for some part-time faculty because it did not set up a leave schedule for those faculty.

**Recommendations**

- The system office should ensure the HR system accurately records sick leave.
- The system office should work with the universities to identify faculty who accrued more sick leave than eligible and correct those errors.
- The system office should provide guidance to universities for determining initial leave balances when employees move between bargaining plans.
- Universities should establish leave schedules for part-time faculty, where appropriate.
3. **Five universities did not adequately limit system access.**

Our review of employees with access to HR and payroll systems found that five universities did not limit access based on job responsibilities. 22 employees had view or update rights to the systems that exceeded job responsibilities. In addition, we noted five instances where security to the HR and payroll system was not removed when employees left employment. This access could have allowed employees to complete unauthorized transactions or view non-public data.

**Recommendations**

- Universities should ensure that access to HR and payroll systems are based on job responsibilities.
- Universities should timely remove access for employees that are no longer employed.

4. **Due to system limitations and inconsistent coding, the system (ISRS) is not an effective tool for managing and oversight of faculty workloads.**

We noted problems within ISRS that limit its usefulness for managing and oversight of faculty workloads. Our review noted some incorrect and inconsistent coding within the HR system. In addition, we noted that the design for calculating some information in the HR system does not give an accurate reflection of an employee’s workload. Furthermore, course data within ISRS is not integrated with faculty assignment data.

Employee work assignments are entered into the HR system using various data fields. Assignment type codes are used to differentiate faculty compensation activities (e.g. instruction, chairperson, research, overload, summer instruction). A credit field is used to indicate the number of credits faculty are assigned to teach for a corresponding time period (summer, term, or academic year).

Below are examples where we noted inconsistent data for faculty assignments:

- **On-line instruction**: one university did not use the appropriate assignment type code for online instruction compensated via the packaged course provision of the IFO Agreement.
- **Chairperson**: one university incorrectly entered credits for faculty chairperson assignments. Entering credits for these assignments inflates individual faculty and institutional credit analyses.
- **Non-instructional**: universities coded credits to assignment type codes that were for non-instructional activities. During fiscal years 2011 and 2012, universities coded 546 credits to these types of assignment codes.
- **Coaching**: Some coaching assignment codes require credits to be entered and others do not. An analysis of fiscal year 2011 and 2012 data showed that universities entered 4,247 credits for coaching activities.

The following items are examples of system limitations related to faculty assignments:

- **Summer chair assignments**: the HR system is designed to treat instruction and chair activities
differently during the academic year than during summer sessions. During the academic year, instruction and chair duties are noted as separate assignments. However, during summer sessions, these assignments are not separated. Therefore, the HR system does not accurately capture the number of credits taught by chairs during summer sessions.

- **FTE calculation:** the HR system calculates an overall FTE (full-time equivalent) for each employee for the fiscal year. University presidents are required to approve any assignments that place a faculty member above a 1.33 FTE during a fiscal year. Although the formula to determine if an employee exceeds 1.33 FTE excludes some assignment types (such as summer instruction, overload and compensation via the packaged course provision), those assignments are included in the HR system FTE calculation. Thus, a manual calculation is required to determine if presidential approval is needed. Thus, requiring a manual calculation to determine if presidential approval is needed.

- **Assignment type code 4015:** HR guidelines require faculty assignments that are approved to exceed 1.33 FTE in a fiscal year to be coded to a specific assignment code (4015). However, this results in data inconsistencies since the definition for the use of this code is for pay that does not fit into any other assignment type code.

We also noted instances where changes to faculty assignments were not always documented in the ISRS HR and Course Term modules. For example, we noted instances where:

- **Course data inaccuracies:** the data showed faculty teaching more or less credits than noted in the HR system. Upon further inquiry with academic staff, we were told the course data had not been updated for changes in instructors.

- **Faculty assignment inaccuracies:** faculty instructional loads changed, such as a faculty member was re-assigned to work on a grant. However, the reassignment information was not forwarded to the HR office. Thus, the HR system showed the employee teaching a full-credit load.

- **Faculty assignment of full-load:** faculty taught one or two credits less than the instructional credit assignment noted in the HR system. Upon further inquiry with academic staff, we were told faculty members were considered at full load. The IFO Agreement states that faculty workloads shall not exceed 14 credits per semester and 24 credits per academic year; but it does not define minimum credits that must be taught.

In addition to these data inconsistencies, course data is not integrated with the HR system. Although the HR system contains information related to how many credits of instruction a faculty member has been assigned, the current course data does not provide information to indicate which courses are taught as part of base salary, overload, supervised instructional activities not eligible for overload or courses compensated using the packaged course provision. This requires academic deans and HR staff to rely on supplemental systems for determining and monitoring faculty workload and assignments.

Academic deans typically manage workloads for a large number\(^2\) of faculty making the need for automated systems more critical. For example, we reviewed one instructor’s schedule that contained 35 courses for a term; including courses taught as part of load, supervised instructional

\(^2\) Our analysis of fiscal year 2012 data showed that most university deans supervise more than 100 faculty members, including 10 deans who supervise between 100 and 150 employees, eight deans who supervise between 150 and 200, and three deans that supervise 227, 277, and 299 employees.
activities, and courses that were taught through the packaged course provision. The dean is not easily able to determine which courses, if any, may be eligible for overload because HR system reports do not identify which courses are considered part of load (base salary). This is further complicated at one university where a significant number of online courses are managed by an academic dean that is not the supervisory dean. Without integrated tools, deans and HR staff cannot easily determine or monitor whether employees are eligible for supplemental pay (overload, online course, summer).

These issues contribute to difficulty in using ISRS data for managing and oversight of faculty workloads. These inconsistencies also result in decreasing the usefulness of data for analysis at individual institutions or system-wide.

**Recommendation**

- *The system office should work with colleges and universities to determine what changes are needed to provide data consistency for managing and oversight of faculty workloads.*

5. **Standards do not exist to help provide consistency for some faculty workload assignments.**

The system office and individual universities have not documented standards for faculty assignments for department chairs with extended chair assignments and faculty supervised instructional activities. We noted varying practices in how universities, including academic departments within the same university, managed these assignments. The variances resulted in additional compensation for some faculty while in other cases the work was considered part of another assignment and did not result in additional compensation. The IFO Agreement provides flexibility in assigning workload to faculty but without documented standards, universities cannot ensure faculty assignments for these activities are treated in a similar manner.

**Recommendation**

- *The system office should work with universities to help develop standards for extended chair and supervised instructional activity assignments.*

6. **The 224 duty day limit does not include all assignment types.**

The HR division has a guideline\(^3\) that specifies requirements for certain faculty assignments that exceed 1.33 FTE or 224 duty days within a fiscal year be approved by the president. The logic associated with the 224 duty day limit is that it represents a workload equivalent to a full-time, year-long assignment. The IFO Agreement establishes 168 duty days as the basis for a full-time, nine month faculty appointment. Thus, 224 duty days would represent the equivalent of a twelve month full-time assignment.

While we found that universities were having presidents approve assignments over 224 duty days, we do not believe that the 224 duty day limit is an effective control to monitor faculty workloads.

---

\(^3\) Guideline CMP 0010: [http://www.hr.mnscu.edu/guide_interpretations/documents/CMP0010_2.pdf](http://www.hr.mnscu.edu/guide_interpretations/documents/CMP0010_2.pdf)
since it does not include some assignment types. For example, other instructional assignments such as summer session, overload and courses compensated under the packaged course provision are not included in the 224 duty day formula. In addition, the guideline requires faculty to maintain a log of activities performed that must be sent to the system office Labor Relations unit. We noted that universities were not complying with this part of the guideline.

 Recommendation

- The system office should work with the universities to re-evaluate this requirement to determine if a more effective and inclusive measure exists to monitor and control faculty workloads.

7. Payroll reconciliation processes are inefficient.

Exception reports are not available for performing routine payroll reconciliations; instead payroll staff complete labor intensive reconciliations using lengthy detailed reports. Reconciliations are a key internal control to ensure the accuracy of payroll expense each pay period.

The system office provides training and guidance to colleges and universities on reconciliations that need to be completed timely each pay period. Currently, several reports are recommended to be printed, reviewed, and reconciled with each other to ensure payroll expenses were accurate and properly recorded. Several of the reconciliations require a comparison at the very detailed employee level. Besides being more time consuming, manual reviews are prone to more error.

 Recommendation

- The system office should work with institutions to develop exception reports that would identify transactions that merit further review by payroll and HR staff rather than relying on institutions to review all transactions.

8. The e-TimeSheet system is not designed for faculty use.

Currently, all college and university staff except faculty utilize the e-TimeSheet system for requesting and tracking leave. The e-TimeSheet system has not been designed to accommodate leave recording and tracking by faculty. As a result, faculty continue to utilize paper leave slips for requesting leave, supervisors manually authorize leave taken, and staff enter leave taken into the HR system where balances are maintained. In addition, universities must annually inform faculty of individual leave balances. Manual processes tend to be more inefficient and prone to error.

 Recommendation

- The system office should work to develop a timeline for adding functionality to the e-TimeSheet application for tracking and recording of faculty leave.
9. **System office HR and payroll guidance and documentation available for university staff is difficult to locate.**

The system office provides guidance and documentation for managing HR and payroll activities. Guidance comes in many different forms such as emails, online training materials, guidelines, and procedures. However, the guidance is located in different locations making it difficult to find. For example, the HR Division has developed guidelines which are not located with the Board policies, procedures and guidelines. Other guidance has been disseminated in emails and information is available on a variety of MnSCU websites.

**Recommendation**

- *The system office should streamline the locations of HR and payroll guidance and documentation.*

---

### Section IV – Long-Term Considerations for System Leaders

Two additional areas were identified during our audit that merit review of current practices.

**Faculty Sick Leave Management**

Faculty sick leave management has historically been complex, labor intensive, and prone to error. Leave accrual calculations are complicated due to the numerous faculty appointment scenarios that exist and that can change each term. Other than the errors noted in Finding 2, our sampling did not note any significant errors in leave balances or in leave taken. However, we did observe how difficult and time-consuming managing faculty leave can be. We offer some background and data analysis to consider for possible future change to help simplify the process.

Under the IFO Agreement, faculty members are eligible for three types of paid leave:

- **Bereavement leave:** approved for each qualifying bereavement incident.
- **Personal leave:** up to three days of personal leave are granted each fiscal year. Personal leave does not accrue; if days are not used, they lapse and are unavailable in future fiscal years and are not liquidated at time of faculty separation.
- **Sick leave:** accrues based on assignments with a maximum of 12 days per fiscal year. Upon separation, faculty employed for more than 10 years of service are eligible for severance pay of 40% of their sick leave balance\(^4\). Employees with more than 25 years of service are eligible for 45-50% of their sick leave balance.

We completed data analysis of leave taken by faculty during our audit scope. As shown in Table 2, faculty utilized personal leave at about the same percentage as sick leave. For comparative purposes, we also analyzed the percentage of sick leave usage by university administrators over the same period because they are both unclassified employee groups and

\(^4\) Sick leave balance (base) not to exceed 125 days resulting in a potential maximum payout of 50 days.
leave accruals are similar. We noted a much lower percentage of faculty sick leave usage. For example, as shown in Tables 2 and 3, in fiscal year 2011, 76% of administrators utilized sick leave compared to 19% of faculty that used sick leave.

Table 2: State University Faculty Leave Taken During FY 2009 – 2011

<table>
<thead>
<tr>
<th>FY</th>
<th>Faculty Headcount</th>
<th>Personal Leave</th>
<th>Sick Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td># of Faculty</td>
<td>% of Faculty</td>
</tr>
<tr>
<td>2009</td>
<td>3,168</td>
<td>656</td>
<td>21%</td>
</tr>
<tr>
<td>2010</td>
<td>3,372</td>
<td>647</td>
<td>19%</td>
</tr>
<tr>
<td>2011</td>
<td>3,456</td>
<td>662</td>
<td>19%</td>
</tr>
</tbody>
</table>

*Faculty that earned leave during FY09-FY11
Source: Internal Auditing review of leave data from data warehouse for all seven universities.

Table 3: State University Administrator Leave Taken During FY 2009 – 2011

<table>
<thead>
<tr>
<th>FY</th>
<th>Administrator Headcount</th>
<th>Sick Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of Administrators</td>
<td>% of Admin</td>
</tr>
<tr>
<td>2009</td>
<td>139</td>
<td>105</td>
</tr>
<tr>
<td>2010</td>
<td>145</td>
<td>114</td>
</tr>
<tr>
<td>2011</td>
<td>144</td>
<td>110</td>
</tr>
</tbody>
</table>

*Administrators that earned leave during FY09-FY11
Source: Internal Auditing review of employee leave data from data warehouse for all seven universities.

We then analyzed the length of service for all faculty that separated from employment during our audit period. Faculty can accrue the maximum number of sick days (125 days) for severance payout in 11 years of service with summer appointments. Table 4 shows the results of this analysis and illustrates the majority of faculty had over 20 years of service at the time of separation. Based on an analysis of leave balances prior to separation, approximately 90% of faculty with over 20 years of service were eligible for the maximum severance.

Table 4: Number of Faculty Receiving Severance during Fiscal Years 2009 – 2012

<table>
<thead>
<tr>
<th>Length of Service</th>
<th>Number of Faculty Receiving Severance Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 12 years of service</td>
<td>7</td>
</tr>
<tr>
<td>12 – 19 years of service</td>
<td>66</td>
</tr>
<tr>
<td>&gt; 20 years of service</td>
<td>283</td>
</tr>
</tbody>
</table>

Source: Internal Auditing review of employee HR assignment data from data warehouse for all seven universities.

Other reasons for considering simplifications to sick leave management include:

- It has been difficult to design the HR system to take into account the complicated leave accrual scenarios for full-time and part-time faculty. (See Finding 2.)
Administrators at universities discussed the difficulty in adequate recording of sick leave taken by faculty. For example, if a faculty member is out ill for a week during the academic year, but only has scheduled classes on three days during the week, administrators would expect the faculty member to take five days of sick leave since they would have missed five duty days. This concept is difficult to convey and enforce.

As discussed in Finding 8, faculty currently do not use the e-TimeSheet application. Adding functionality to the application would require information technology resources.

Because of past issues noted with sick leave balances many institutions have implemented procedures to manually review sick leave balances prior to paying out severance pay.

**Recommendation**

- *System leaders should consider alternative methods to simplify the administration of sick leave accounting. For example, one HR administrator believes the answer to simplifying faculty sick leave management would be to eliminate faculty sick leave, offer short-term disability benefits for extended illnesses, and negotiate specific severance packages based on years of service for faculty separations.*

**On-line Course Compensation and Workload**

The IFO Agreement allows faculty to be paid additional compensation for packaged courses; however, the provision does not limit the number of courses or credits that can be taught. During the audit period, BSU, Mankato, Moorhead⁵, and SCSU utilized the packaged course provision to compensate faculty for teaching on-line courses in addition to their regular faculty appointments. As a result, we found that some faculty taught heavy online course loads in addition to their regular appointments. Significant financial incentive exists to accept high workload.

Table 5 documents the number of faculty paid during fiscal years 2009 through 2011 via the packaged course provision; this is in addition to base salary or any other additional pay received. The packaged course provision allows institutions to compensate faculty at a rate of $65 per student per credit taught. Table 5 also provides an estimate of the number of student credits generated via the packaged course provision.

The IFO Agreement does not establish a maximum amount that may be earned under the packaged course provision. However, the IFO Agreement does suggest limitations on instruction for overload and summer. Specifically, the IFO Agreement states:

*Limitation. Normally, total workload including overload shall not exceed sixteen (16) credits per semester and total overload shall not exceed five (5) credits per academic year.”* [Article 12, Section D]

*Workload. A full-time summer session workload shall consist of no more than six (6) credit hours. The total workload over summer session shall not exceed (sixteen) 16 credits. [Article 13, Section A]*

⁵ Moorhead management indicated that they plan to stop using the packaged course provision in fiscal year 2013.
Table 5
Faculty Paid for Teaching Online Courses Compensated
Via the Packaged Course Provision for FY09 – FY11

<table>
<thead>
<tr>
<th>Amount Paid per Faculty Member (1) (2)</th>
<th>Approximate Student Credits Generated</th>
<th># of Faculty Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70,000 - $120,000</td>
<td>1,076 – 1,846</td>
<td>FY09 FY10 FY11</td>
</tr>
<tr>
<td>$50,000 - $69,999</td>
<td>769 – 1,076</td>
<td>9 8 14</td>
</tr>
<tr>
<td>$30,000 - $49,999</td>
<td>461 – 769</td>
<td>25 27 24</td>
</tr>
<tr>
<td>Less than $30,000</td>
<td>&lt;461</td>
<td>174 179 175</td>
</tr>
</tbody>
</table>

Notes:
(1) Pay is only for online courses compensated via the packaged course provision.
(2) Data does not include adjunct faculty. Data also excludes online courses paid via packaged course provision for Moorhead.

Source: Internal Auditing review of employee HR assignment data from data warehouse.

We observed faculty teaching numerous online courses compensated via the packaged course provision. We attempted to analyze course and enrollment data but many variables exist and as we noted in Finding 4, course data does not indicate how courses were compensated (normal workload, overload, packaged course provision); therefore, comparable course and enrollment data is not readily available.

We analyzed the packaged course provision based on student credits generated. For example, although course enrollment varies, a three-credit course of 25 enrolled students would generate 75 student credits. The IFO Agreement does not define normal workload in terms of number of student credits generated; however, using the “normal workloads” as defined above, faculty teaching a full teaching load, plus overload and summer could generate about 1,200 student credits (estimating 25 students each course). Of course, actual enrollment levels will vary with some courses having lower or higher enrollment. Universities have flexibility to adjust workload to compensate for the larger, auditorium style courses. However, as noted in Table 5, some faculty generated an additional 1,000 student credits under the packaged course provision above their “normal workload.”

The packaged course provision provides flexibility for universities to offer courses where low enrollment might otherwise prohibit offering the course. However, high credit loads may impair academic quality and create undue stress on faculty. In addition, we noted some faculty were compensated under the packaged course provision for supervised instructional activities which are not normally eligible for additional compensation.

**Recommendation**

- The system office should work with universities to review the packaged course provision and consider developing guidelines that would address workload.
June 19, 2012

Board of Trustees
Chancellor Steven Rosenstone
Minnesota State Colleges and Universities

The Office of the Internal Auditor has completed an internal control and compliance audit of state university personnel and payroll expenditures for the three and one half years ending December 31, 2011.

It is the auditor's opinion that the universities “generally had adequate internal controls to ensure they accurately compensated employees, maintained accurate leave records and properly recorded payroll transactions”. The universities have responsibility for the administration of over $500 million per year in payroll related transactions on behalf of over 7,000 employees. The auditors noted no matters involving Minnesota State Colleges & Universities' internal control over compliance and its operation that would be considered a material weakness. However, in the course of the audit, some instances of internal control deficiencies were identified.

Management of the system office and the universities has already undertaken remedies. 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 by employees across the state.

Regards,

Sheila Reger
Interim Associate Vice Chancellor for Human Resources

Attachment
Attachment

Specific responses

Finding 1 – Institutions inaccurately paid some employees upon separation.

The system office Human Resources division agrees with this finding and is actively working with the universities (and colleges) to ensure the BESI overpayments are satisfactorily resolved. Revised BESI calculation spreadsheets have been provided to campuses along with template letters to manage a consistent message to former employees regarding the corrective action relative to their original payment. The correction process is well underway and campuses are working aggressively to complete the reconciling process by the end of fiscal year 2012. The system office Human Resources division will also work with campus Chief Human Resources Officers to improve the documentation review process.

Information system related findings

Finding 2, 3 and 4 - The HR (information) system inaccurately accrued leave for some faculty - system access controls can be improved and the system needs enhancement to improve functionality.

Finding 2
The system office Human Resources division agrees with this finding and is actively working with the Information Technology division to make the necessary modifications. The June 2012 release of system modifications corrected the system to allow no more than 12 days (96 hours) of sick leave to accrue in a fiscal year. The modification to manage the appropriate accrual of sick leave for the summer period is a more complex change, but is tentatively scheduled for an August release.

Finding 3
The system office Human Resources division agrees with this finding and will work with the universities to improve the responsiveness of system security changes due to job assignment or position changes for HR and Payroll staff.

Finding 4
The system office will work with colleges and universities to determine what is needed to improve data consistency for managing and providing oversight of faculty workloads. Recommendations will be submitted for FY13-FY14 Information Technology work planning consideration.

Payroll related findings

Finding 5, 6, 7, 8 and 9 - Standards are needed for workload assignments, payroll reconciliation, faculty access to the e-Timesheet and documentation improvements.
Finding 5
The system office Human Resources division is in agreement with the recommendation for the noted faculty workload assignments. The office will work with the universities to ascertain the feasibility of creating standards for assignments which improve consistency while providing the necessary flexibility.

Finding 6
The system office Human Resources division supports the recommendation to re-evaluate the effectiveness of the 224 duty day workload limitations.

Finding 7
The system office Human Resources division is in agreement with the recommendation to develop various HR/Payroll exception reports. The HR system (SCUPPS) User Group will evaluate where reporting efficiencies can be improved and make recommendations to Information Technology division for consideration for FY13 work.

Finding 8
The system office Human Resources division supports the recommendation to include faculty in the e-Timesheet system. This is an active discussion with the HR system (SCUPPS) User Group. The user group will work toward developing a timeline for implementation.

Finding 9
The system office Human Resources division agrees with this finding and will implement the recommendation to streamline the locations of HR and Payroll guidance and documentation by December 31, 2012.

Management will report progress on resolution of the above issues to the Human Resources committee of the Board of Trustees.
### Appendix A

**University Employee Headcount\(^6\) by Bargaining Agreement as of June 30, 2011**

<table>
<thead>
<tr>
<th>Bargaining Agreement</th>
<th>Types of Positions</th>
<th>BSU</th>
<th>Mankato</th>
<th>Metro</th>
<th>Moor-head</th>
<th>SCSU</th>
<th>SMSU</th>
<th>WSU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unclassified Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFO: Inter Faculty Organization</td>
<td>Faculty (adjunct or full-time), library faculty, coaches, counselors</td>
<td>303</td>
<td>928</td>
<td>680</td>
<td>550</td>
<td>934</td>
<td>225</td>
<td>566</td>
</tr>
<tr>
<td>Non-Unit Faculty</td>
<td>Teaching faculty</td>
<td>131</td>
<td>249</td>
<td>248</td>
<td>182</td>
<td>346</td>
<td>111</td>
<td>158</td>
</tr>
<tr>
<td>MSUAASF: Minnesota State University Association of Administrative and Service Faculty</td>
<td>Financial aid directors, registrars, admissions directors</td>
<td>76</td>
<td>172</td>
<td>112</td>
<td>99</td>
<td>202</td>
<td>74</td>
<td>125</td>
</tr>
<tr>
<td>Excluded Administrators</td>
<td>President, VPs, deans, facilities directors, business managers</td>
<td>19</td>
<td>42</td>
<td>24</td>
<td>27</td>
<td>46</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td><strong>Classified Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AFSCME: American Federation of State County and Municipal Employees</td>
<td>Electricians, plumbers, account clerks, general maintenance workers</td>
<td>157</td>
<td>415</td>
<td>147</td>
<td>181</td>
<td>397</td>
<td>85</td>
<td>250</td>
</tr>
<tr>
<td>MAPE: Minnesota Association of Professional Employees</td>
<td>IT, Accounting Officers</td>
<td>38</td>
<td>103</td>
<td>59</td>
<td>42</td>
<td>124</td>
<td>24</td>
<td>65</td>
</tr>
<tr>
<td>Minnesota Government Engineer Council</td>
<td>Engineer</td>
<td>0</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>MMA: Middle Management Association</td>
<td>Director of Information Systems, Accounting Supervisor, Physical Plant Supervisor, Grounds Supervisor</td>
<td>12</td>
<td>35</td>
<td>15</td>
<td>15</td>
<td>28</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>MNA: Minnesota Nurses Association</td>
<td>Registered Nurse</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Health Non-Professionals</td>
<td>Licensed Practical Nurse or Certified Medical Assistant</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
</tr>
<tr>
<td>Health Treatment Professionals</td>
<td>Pharmacist or Physician Assistant</td>
<td>0</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>&lt;5&lt;sup&gt;7&lt;/sup&gt;</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Commissioner’s Plan</td>
<td>Personnel Officers, Assistant to the President</td>
<td>9</td>
<td>16</td>
<td>15</td>
<td>8</td>
<td>13</td>
<td>&lt;5</td>
<td>10</td>
</tr>
<tr>
<td>Non-Unit Staff</td>
<td>Employee with too few hours to be part of above bargaining units</td>
<td>14</td>
<td>18</td>
<td>6</td>
<td>27</td>
<td>93</td>
<td>6</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: MnSCU ITS Management Reports (HR Payroll Reports)
http://www.its.mnscu.edu/reportanddataservices/managementreports/index.html

---

\(^6\) Counts are unduplicated within a bargaining unit. However, if an employee is in more than one bargaining unit, the employee will be counted in both bargaining unit counts.

\(^7\) Headcounts not provided for bargaining units where employee headcount is less than five employees.
## Appendix B
### Relevant Definitions for State University Employee Compensation

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Year</td>
<td>An academic year shall consist of 168 duty days. It begins with the start of fall semester and ends with the completion of spring semester.</td>
<td>IFO Agreement(^8) Article 5, Section M and Article 10, Section D, Subd. 1</td>
</tr>
<tr>
<td>Adjunct Faculty Assignment</td>
<td>An adjunct faculty member shall not teach more than ten (10) credits in any one (1) academic year.</td>
<td>IFO Agreement Article 21, Subd. 3</td>
</tr>
<tr>
<td>Base Salary</td>
<td>Salaries of tenured, probationary, fixed-term, and non-tenure track faculty members will be at the rate set forth on salary schedules as full-time nine-month (168 days) base salaries.</td>
<td>IFO Agreement Article 11, Subd. 1</td>
</tr>
<tr>
<td>Board Authorized Employee Separation Incentives</td>
<td>The Board of Trustees adopted Board Policy 4.11 Board Authorized Early Separation Incentive Program on 7/22/09 allowing institutions to implement time-limited early separation incentives authorized by Minnesota Statutes 136F.481 with a goal to reduce salary and benefit obligations, reallocate resources or achieve other cost savings or efficiencies.</td>
<td>Policy 4.11 Board Early Separation Incentive Program</td>
</tr>
<tr>
<td>Chairperson (Academic Department Chairperson)</td>
<td>The chair provides academic and administrative coordination, and fosters an environment which enhances individual and departmental growth and development. [This appointment is not considered a supervisory role.]</td>
<td>IFO Agreement, Article 20, Section B, Subd. 1</td>
</tr>
<tr>
<td>Classified Service (Employee)</td>
<td>Classified service means all positions now existing or hereafter created in the civil service and not specifically designated unclassified pursuant to section 43A.08.</td>
<td>Minnesota Statute 43A.02, Subd. 12</td>
</tr>
<tr>
<td>Course Term Module</td>
<td>ISRS Course Term Module contains data for courses offered in a term and contains key information for the courses such as course name, credits, course level, instructor name, and room location.</td>
<td>n/a</td>
</tr>
<tr>
<td>Duty Day</td>
<td>A day included in the university calendar or individual faculty member’s appointment on which a faculty member engages in duties as described in this Agreement.</td>
<td>IFO Agreement Article 5, Section N</td>
</tr>
<tr>
<td>FICA</td>
<td>Federal Insurance Contributions Act (FICA) tax is withheld from salary or self-employment income that funds the Social Security and Medicare programs</td>
<td>n/a</td>
</tr>
<tr>
<td>Extended Chair Assignments</td>
<td>All chairs of departments of five (5) or more FTE members shall be offered appointments of at least one hundred ninety-six (196) duty days; however, a chairperson may decline any portion of the schedule beyond one hundred sixty-eight (168) days. The one hundred ninety-six (196) duty days of the extended appointment shall consist of the one hundred sixty-eight (168) academic duty day schedule plus twenty eight (28) additional duty days which shall be mutually agreed upon by the chair, the Association, and the President / designee.</td>
<td>IFO Agreement Article 20, Section C, Subd. 1</td>
</tr>
<tr>
<td>Extended</td>
<td>Faculty members appointed to a duty year which exceeds the IFO Agreement Article 10.</td>
<td></td>
</tr>
</tbody>
</table>

\(^8\) 2009 – 2011 IFO Master Agreement between MnSCU Board of Trustees and the Interfaculty Organizations
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointments (extra duty day)</td>
<td>one hundred sixty-eight (168) duty days as provided in Subd. 1 of this section shall receive a pro rata salary adjustment. The scheduling of extra duty days shall be determined in consultation with the faculty member consistent with the needs of the university. Extra duty days normally shall not be scheduled on the days indicated in Subd. 1. [Extra duty day daily rate = Base salary / 168 duty days]</td>
<td>Section D, Subd. 2</td>
</tr>
<tr>
<td>Faculty Workload</td>
<td>The workload of faculty includes student advising, maintaining and improving expertise in a discipline and in pedagogy, serving on departmental and university committees, contributing to student growth and development, evaluating student performance, scholarly activities, and service to university and community, as well as teaching and class preparation. Additionally, as a professional, a faculty member shall devote a substantial amount of his / her workload to course preparation, research, the maintenance of professional expertise, innovations in teaching / learning and other similar activities.</td>
<td>IFO Agreement Article 10, Section A</td>
</tr>
<tr>
<td>Miscellaneous Instruction Categories</td>
<td>Faculty members providing packaged courses or correspondence courses approved by the President / designee shall be compensated at the rate of $65 per credit hour per student. Referred to throughout the report as “packaged course provision.”</td>
<td>IFO Agreement Article 10, Section A, Subd. 6</td>
</tr>
<tr>
<td>Overload</td>
<td>An overload shall be defined as a specific assignment, acceptable to the faculty member and approved by the President / designee, occurring within a faculty member’s period of appointment, which in excess of the faculty member’s workload as defined in Article 10 and in Article 13, Section A.</td>
<td>IFO Agreement Article 12, Section A</td>
</tr>
<tr>
<td>Overload Application</td>
<td>Examples of activities excluded from overload pay include but are not limited to the following: internship, independent studies, student teacher supervision, graduate thesis supervision, tutoring, studios and related kinds of individualized instruction, the pyramiding of multi-level courses, and substitution for an absent faculty member on a short-term basis. Referred to throughout the report as “supervised instructional activities.”</td>
<td>IFO Agreement Article 12, Section C</td>
</tr>
<tr>
<td>Overload Rate</td>
<td>Overload compensation shall be granted to faculty members for approved assignments involving the teaching of courses, workshops, seminars, and institutes in addition to the workload as defined in Article 10 and in Article 13, Section A. Such overload compensation shall be at the rate of two and one quarter percent (2.25%) of the faculty member’s nine- (9) month base salary, but not less than the minimum adjunct rate set forth in Article 11 for each semester credit hour.</td>
<td>IFO Agreement Article 12, Section B, Subd. 1</td>
</tr>
<tr>
<td>Packaged Course Provision</td>
<td>See “Miscellaneous Instruction Categories”</td>
<td>n/a</td>
</tr>
<tr>
<td>Release Time</td>
<td>Release time shall mean the granting of a paid exemption from</td>
<td>IFO Agreement Article 5,</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
<td>Reference</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>and Reassigned Time</td>
<td>duties normally required or performed. Such release time will be for one or more duty days and does not include sick leave and emergency or personal leave time. Reassigned time shall mean an alternative assignment other than classroom teaching for one or more credit hours during the academic year or summer. For those faculty whose primary assignments are non-classroom instruction, e.g. coaches, librarians and counselors, reassigned time shall mean an alternative assignment other than their principal assignment to fulfill the professional development criteria of Article 22.</td>
<td>Section Y</td>
</tr>
<tr>
<td>SCUPPS</td>
<td>State Colleges and University Personnel and Payroll System (SCUPPS) is the MnSCU human resource application.</td>
<td>n/a</td>
</tr>
<tr>
<td>SEMA4</td>
<td>Statewide Employee Management System (SEMA4) is the State of Minnesota payroll, human resource and benefits systems. MnSCU’s HR application interfaces with SEMA4 and employees are paid through the SEMA4 system.</td>
<td>n/a</td>
</tr>
<tr>
<td>Summer Session Rate</td>
<td>A faculty member accepting a summer or alternative session teaching assignment shall receive two and one-quarter (2.25%) of his / her nine- (9) month base salary for the preceding academic year per credit hour, but not less than the minimum adjunct rate for the preceding academic year as set forth in Article 11.</td>
<td>IFO Agreement Article 13, Section C</td>
</tr>
<tr>
<td>Summer Session Workload</td>
<td>A full-time summer session workload shall consist of no more than six (6) credit hours. The total workload over summer session shall not exceed (sixteen) 16 credits.</td>
<td>IFO Agreement Article 13, Section A</td>
</tr>
<tr>
<td>Supervised Instructional Activities</td>
<td>See Overload Application.</td>
<td>n/a</td>
</tr>
<tr>
<td>Teaching Load</td>
<td>A faculty member’s teaching load shall not exceed 14 undergraduate credit hours per semester nor 24 credit hours per academic year.</td>
<td>IFO Agreement Article 10, Section A, Subd. 1</td>
</tr>
<tr>
<td>Unclassified Service (Employee)</td>
<td>Unclassified service means all positions designated not being classified pursuant to section 43A.08. 43A.08 indicates that presidents, vice-presidents, deans, other managers and professionals in academic and academic support programs, administrative or service faculty, teachers, research assistants, and student employees eligible under terms of federal Economic Opportunity Act work study program in the Perpich Center for Arts Education and Minnesota State Colleges and Universities, but not the custodial, clerical, or maintenance employees, or any professional or managerial employee performing duties in connection with the business administration of these institutions.</td>
<td>Minnesota Statute 43A.02, Subd. 39 and 43A.08, Subd. 1(9)</td>
</tr>
</tbody>
</table>