OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Winona State University

Period from July 1, 1996, through December 31, 1999

MAY 11, 2000 **00-18**

Financial Audit Division

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OLA

OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Financial Audit Report

Winona State University

Period from July 1, 1996, through December 31, 1999

Winona State University operated within available financial resources. Except as noted below, the university operated in compliance with applicable legal provisions and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded.

Key Findings:

- The university did not adequately restrict computer security clearances in several departments. (Finding 1, page 8)
- The university did not always obtain sufficient collateral to cover its cash in the bank. (Finding 2, page 10)
- The university obtained some goods and services before encumbering the funds or receiving required prior approvals. (Finding 6, page 24)
- The university did not adequately account for and safeguard its consumable inventory and fixed assets. (Findings 7 and 8, pages 24 and 25)
- The university did not conduct required exit counseling for the Federal Family Education Loan programs. (Finding 9, page 29)

Winona State University is a part of the Minnesota State Colleges and University (MnSCU) System. This **audit report** represents the conclusions of our audit of the university's tuition and fees, payroll, supplies, repairs and alterations, purchased services and equipment, bookstore operations, and private grants for the period from July 1, 1996, through December 31, 1999. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 2000. The university's response is included in the report.

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712

E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

Winona State University

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
David Poliseno, CPA, CISA	Auditor-In-Charge
Ellen Sibley	Auditor
April Snyder	Auditor
Scott Tjomsland, CPA	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Winona State University and the MnSCU system office at the exit conference held on April 11, 2000:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Margaret Jenniges	Director of Financial Reporting
Deb Winter	Director of Campus Accounting
Andrew Boss	MnSCU Board of Trustees

Winona State University:

Darrell Krueger	President
Calvin Winbush	Vice President, Student Affairs and Facilities
Scott Ellinghuysen	Comptroller, Chief Financial Officer
Joanne Lanik	Accounting Director

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Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Darrell Krueger, President
Winona State University

We have audited selected areas of Winona State University for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, supplies, repair and alterations, purchased services and equipment, bookstore operations, and private grants. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 2000. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Winona State University complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the university is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Winona State University, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 11, 2000.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: February 18, 2000

Report Signed On: May 3, 2000

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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Chapter 1. Introduction

Winona State University is a public, liberal arts university in the southeast corner of Minnesota. The university was founded in 1858 as the first college in the former system of state universities and the first teacher preparation institution west of the Mississippi River. Winona State University is part of the Minnesota State Colleges and Universities System (MnSCU). The university is a partner in the University Center Rochester. For the 1998-1999 school year, the university's student population totaled about 6,400 full year equivalent students at its Winona and Rochester Center locations.

The university provides more than 80 academic programs within its five colleges. Its mission is to serve the broad educational needs of the people of the region and others who are attracted to its various programs. Dr. Darrell W. Krueger is the current president of the university.

The university finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the system-wide appropriation to its individual institutions based on a formula. The total of appropriations and dedicated receipts establishes the spending authority for the university. Table 1-1 provides a summary of the university's sources and uses of funds for the fiscal year ended June 30, 1999.

Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenues:				
State Appropriations	$29,783,548	$ 0	$ 0	$ 0
Tuition and Fees	18,428,875	1,266,262	1,333,831	0
Sales and Services (3)	433,686	175,855	1,770,517	0
Room and Board	819	0	5,899,337	0
Federal Grants	0	3,633,826	11,691	0
State Grants	2,164,389	0	0	0
Private Grants	184,602	219,948	250,000	1,159,619
Other Income	310,192	48,435	301,491	372,213
Total Revenues	$51,306,111	$5,344,325	$9,566,867	$1,531,832
Expenditures/Expenses:				
Salaries	$36,999,940	$1,408,880	$2,655,811	$ 0
Purchased Services	3,637,078	442,090	3,536,080	0
Utilities	1,146,288	10,524	694,929	0
Contract/Consultants	558,170	66,021	72,973	0
Supplies	2,655,392	232,755	778,185	0
Financial Aid	1,746,046	2,569,899	37,889	1,669,195
Capital Expenditures	1,231,872	130,672	57,745	0
Debt Service – Interest	1,668,880		44,628	0
Other	537,827	434,261	122,517	10
Total Expenditures/Expenses	$50,181,493	$5,295,103	$8,000,756	$1,669,205
Transfers:				
Transfers-In	$ 17,912	$ 15,000	$2,994,437	$1,169,374
Transfers-Out	(146,107)	(17,298)	(1,622,344)	(719,137)
Net Transfers	$ (128,195)	$ (2,298)	$1,372,093	$ 450,237
Change in Fund Balance	$ 996,423	$ 46,925	$2,938,204	$ 312,864
Beginning Fund Balance				
FY 1999 Balance Forward	$5,925,115	$1,479,621	$5,339,811	$2,072,051
Ending Fund Balance (2)	$6,921,538	$1,526,546	$8,278,015	$2,384,915

Note (1): This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not reflect assets such as accounts receivable and prepaid assets, or long-term liabilities such as debt and compensated absences. Compensated absences as of June 30, 1999 were estimated at $4.6 million.

Note (2) Fund balance for the General Fund includes university budgetary reserve of $1.4 million, externally restricted balances of $1.9 million, dedicated program balances of $2.3 million, and undesignated balances of approximately $1.3 million. Fund balance for the Enterprise Fund includes holdings in the Revenue Fund of $2.5 million, auxiliary enterprises of $3 million, and Perkins loans receivable balance of $2.7 million.

Note (3) Enterprise Fund sales and services are net of cost of good sold, as follows:

Sales and Services – Gross	3,682,662
Cost of Goods Sold	1,912,145
Sales and Services – Net	1,770,517

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Conclusions

Winona State University operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization. Except for the weaknesses identified below, the university's internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded on the MnSCU and MAPS accounting systems. We found that the university had weaknesses in controls in the following areas:

- ***The university did not adequately restrict computer security clearances in several departments.***
- ***The university did not resolve payroll clearing account balances on the MnSCU accounting system.***
- ***The university improperly coded certain fee for service activities as private grants.***
- ***One department performed its own billing and collection functions rather than using the business office to perform these functions.***
- ***The university complied with applicable legal provisions regarding local bank accounts, except that it did not always obtain sufficient collateral to cover its cash in the bank.***

Winona State University uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting then interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury for certain activities. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. Winona State University administers certain funds, such as financial aid, agency accounts, and enterprise activities in local bank accounts. The local bank account also serves as the university's state depository and link to the state treasury.

Audit Objectives and Methodology

The primary objectives of our review of Winona State University's financial management were to answer the following questions:

- Did the university's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

- Did the university's internal controls provide reasonable assurance that assets were safeguarded and that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

- Did the university's internal controls provide reasonable assurance that it maintained an appropriate relationship with its foundation?

- For the items tested, did the university comply with applicable legal provisions regarding local bank accounts?

To answer these questions, we interviewed university personnel to gain an understanding of the MnSCU accounting system and the extent the university used the system for each of the individual program areas we audited. We also gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the university properly recorded its state treasury and local bank activities. We also reviewed local bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency. We also reviewed security privileges to determine whether the university adequately limited access to its computerized business systems.

Budgetary Controls

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Winona State University and all universities and colleges based on an allocation formula. In addition, Winona State University, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

Once Winona State University determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The university establishes individual cost centers for each department or office to monitor its budget status. University management also monitors projected versus actual student enrollment to ensure that sufficient tuition revenues will be received to support the spending budget. The university also builds a reserve balance into its budget formula. As of June 30, 1999, Winona State University had about a three percent budget reserve, or approximately $1,400,000.

Financial Operations

Winona State University has three bank accounts in Winona and one in Rochester for its satellite campus to use as a clearing account. In Winona, the university uses one bank for all of its accounts. The university maintains a revolving deposit account, a student payroll account, a federal loan account to process FFEL checks, and a local activity account. The university performs a complete bank reconciliation on each account monthly. The university also performs monthly reconciliations between MnSCU accounting and MAPS. During our audit period, the university was current with all of its reconciliations and all account differences had been resolved.

Winona State University invested idle cash from student activity accounts, bookstore funds, endowment funds, and other local accounts. It used several different options to maximize its cash flows and investment potential, as well as limit its risks. It used a money market account to invest funds on a short-term basis. On July 1, 1996, the Legislature enacted legislation to allow the university to transfer money to the Minnesota State Board of Investment for investment. Further, in 1998, Winona State University received approval from MnSCU to invest a portion of its endowment funds directly with money management firms currently under contract with the State Board of Investment.

Private Grants

Winona State University received private grants totaling approximately $1.5 million annually during fiscal years 1997 through 1999. WSU received private grants from various organizations, including its foundation, for student scholarships. Some grants specified the student or students to receive the award. In other cases, grantors specified criteria for students to qualify for a scholarship, and the university selected the students.

The university also received private grants from organizations for research, specific projects, or in return for services it performed. The most significant of these was a grant agreement with International Business Machines Corporation (IBM) for software testing. University staff and students tested IBM software in return for an agreed-upon fee. As of December 31, 1999, the university reported a balance of about $450,000 in the private grant accounts. Winona State University had not yet determined how to use these funds.

Winona State University and the Winona State University Foundation entered into an agreement that established the responsibilities of each organization. The foundation existed to provide scholarship money to students attending the university. Although the university provided administrative support to the foundation, it did not participate in the foundation's decision-making process. In addition, the foundation underwent an independent audit for the year ended June 30, 1999. According to the audit report, the Winona State University Foundation had total revenues of $2,192,618, total expenses of $762,998, and an ending net asset balance of $8,443,993 as of June 30, 1999. Most of the foundation’s net asset balance is permanently restricted.

Conclusions

Winona State University operated within available financial resources and generally in compliance with applicable legal provisions and management authorizations. However, the university did not adequately restrict computer security clearances in several departments. The university's internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded on the MnSCU and MAPS accounting system, except that the university did not resolve payroll clearing account balances on MnSCU accounting and the university improperly coded certain fee for service activities as private grants. The university also allowed one department to perform its own billing and collection functions rather than using the business office to perform these functions.

The university complied with applicable legal provisions regarding local bank accounts, except that it did not always obtain sufficient collateral to cover its cash in the bank. Finally, the university maintained an appropriate operating relationship with its foundation.

1. PRIOR FINDING PARTIALLY RESOLVED: Winona State University did not adequately restrict certain computer security clearances.

Winona State University did not adequately restrict computer security clearances in several areas. In our prior audit, we identified several instances of incompatible clearances. Although the university resolved many of those specific instances, our review of security during the current audit identified the following incompatible clearances within the MnSCU accounting system and SCUPPS, the MnSCU personnel system:

<u>Accounts Receivable</u>

Cashiers had update access to student registration information. The university wanted to give its cashiers access to registration information to assist students. However, the system did not have a "view only" option, so the employees received access to update the student registration system. Individuals who collect tuition receipts should not have the ability to alter registration information.

Two employees working with accounts receivable functions had access to cashiering functions. The employees needed access to the short-term loan screens to perform certain functions. In order to access those screens, the university had to give the employees access to the cashiering security groups.

Two employees in the accounts receivable/cash receipts department had update access to the student course schedule maintenance security group. The employees needed to see student course schedule maintenance screens. However, the system did not offer "view only" access as an option, so the employees received the clearance to update the student course schedule.

A student worker continued to have access to the housing functions in the student information system after the student left employment in spring 1999. Employee access rights should be removed immediately upon an employee's termination of employment.

Payroll/Personnel

Two employees in the business office had access to both payroll and human resource transactions on SCUPPS. The employees need access to certain limited screens to perform their payroll functions. However, due to the security structure, the system granted the employees full access to all of the screens within each menu.

One employee had access to SCUPPS that was not needed. Access to SCUPPS transactions could permit an employee to make unauthorized personnel changes to SCUPPS and use those transactions to initiate improper payroll transactions.

Purchasing

The accounts payable clerks in the business office had the authority to create purchase orders on MnSCU accounting. Although we found no instances where these clerks initiated purchases, this creates a potential problem for future transactions.

Employees in the Physical Plant Department shared the department head's password to approve purchase orders. To ensure accountability for transactions performed, all users must have their own user ID and password. In addition, by sharing passwords, employees could perform incompatible functions and not be detected.

Some of these access concerns occurred because of computer application limitations. The university should work with the system office to revise the security group structure or provide other options so that effective control can be maintained.

Recommendations

- *Winona State University should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data. The university should only grant users access to the screens needed for their jobs. It should work with the system office to allow "view only" screens when needed.*
- *Winona State University should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*
- *The university should ensure that employees do not share system passwords.*

2. Winona State University did not maintain sufficient collateral for its local bank accounts.

Winona State University did not always have sufficient collateral pledged by its local bank to cover the university's bank account balances. Due to a change in cash management procedures, the university now receives large federal student loan transfers into its bank account at the beginning of each semester. As a result, during the last three semesters, the university's cash in the bank exceeded the amount of collateral pledged for up to a week during each peak tuition collection period. The bank pledged about $5.5 million, but the university's funds held at the bank during this period approached $8 million.

Minn. Stat. Section 118A.03 requires that uninsured balances must be pledged with collateral, computed at market value, of at least ten percent more than the amount on deposit at the close of the business day. The Federal Deposit Insurance Corporation insures a level of $100,000 and any excess must be collateralized by the banking institution. Without sufficient collateral, the university's bank balances are not adequately secured and could result in a loss of university funds.

Recommendation

- *Winona State University should work with the local bank and ensure that all university bank balances are collateralized in accordance with statutory requirements.*

3. Winona State University did not properly resolve payroll clearing account balances.

Winona State University did not properly resolve payroll clearing account balances. The university uses the payroll clearing account to move cash from its local bank account to the state treasury to cover the cost of its local payroll. The university writes checks and makes accounting entries to move cash into the clearing account on a biweekly basis prior to the payroll being posted to MAPS. Each year, the university records about $900,000 of activity in the clearing account. However, the payroll clearing account on MnSCU accounting had a reported cash balance (MnSCU account 8110) of $3,913,837 as of December 31, 1999. Even though payroll expenditures had been properly coded in other accounts, the university had not adjusted cash in the clearing account. Without preparing the adjusting transactions, the university is overstating its clearing account cash balance.

Recommendation

- *Winona State University needs to correct the cash balance in its payroll clearing account by posting the necessary adjusting transactions.*

4. Winona State University did not properly account for certain private grant activities.

Winona State University did not properly account for certain private grant activities. First, the university miscoded in MnSCU accounting certain fees it received for services. In addition, the university allowed the chemistry department to collect its own receipts.

The university miscoded certain fee for service receipts as gifts. The university collected about $245,000 from fee for service arrangements during fiscal year 1999. We reviewed a sample of seven such arrangements during our audit. For example, the university contracted with International Business Machines Corporation (IBM) for software testing. University staff and students tested IBM software in return for an agreed-upon fee. In other cases, the university provided services, such as water testing and customized courses, for a fee. The university recorded this and other similar activity in the state's Gift Fund (HEB Fund 510). However, because of the nature of this fee for service activity, it would most appropriately be recorded as part of the state's Special Revenue Fund (HEB Fund 299). The MnSCU system office is studying these activities and plans to establish more specific guidance to institutions for recording and coding these services appropriately in MnSCU accounting.

The university allowed the chemistry department to bill and collect its own receipts, rather than using the university's business office to perform these functions. The department sent out invoices, collected and deposited receipts, and maintained billing records for lab testing it performed for individuals, companies, and government agencies. According to MnSCU accounting records, the department had about $20,000 in receipts and disbursements each year. As of February 15, 2000, the department showed $2,750 in outstanding receivable balances. Of the 66 outstanding accounts, 43 were over one year old, with the oldest dating back to 1988. The university could maintain better separation of duties and safeguarding of assets if the university's business office administered the financial activities of this program.

Recommendations

- *Winona State University should work with the system office to ensure that its fee for service activities are appropriately recorded in the accounting records.*

- *The university should transfer the chemistry department's billing and collection process to the business office.*

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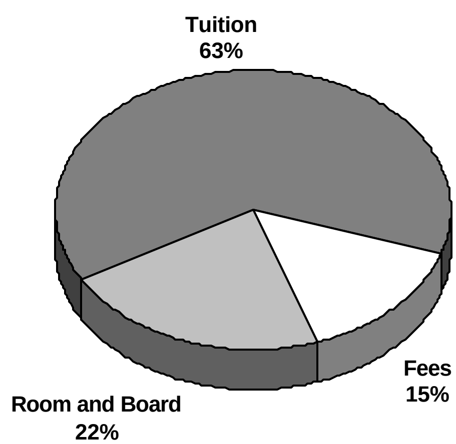
Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

Winona State University's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the university complied, in all material respects, with the significant finance-related legal provisions concerning tuition, fees, and room and board. However, the university has not written off old uncollectible accounts receivable balances.

Winona State University offers both undergraduate and graduate programs. The university collected approximately $27 million in tuition, fees, and room and board during fiscal year 1999. Figure 3-1 shows the breakdown of the revenue by type.

Figure 3-1
Tuition, Fees, and Room and Board Revenue
Fiscal Year 1999



Source: MnSCU accounting system.

Audit Objectives and Methodology

The primary objectives of our review of tuition, fees, and room and board were as follows:

- Did the university's internal controls provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the university comply, in all material respects, with the significant finance-related legal provisions concerning tuition, fees, and room and board?

To meet these objectives, we interviewed university employees to gain an understanding of controls over university revenues. We reviewed tuition, fee, and room and board rates, student registration and accounts receivable records, and MnSCU accounting records to determine if the university charged students appropriate rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the university properly safeguarded and deposited all revenue collections in compliance with applicable legal provisions. Finally, we reviewed collection activity to determine if the university appropriately pursued outstanding accounts receivable.

Tuition, Fees, and Room and Board

At the time of the MnSCU merger in 1995, the university used its own information systems for recording and maintaining student data, assessing tuition, and monitoring unpaid balances. These systems supported various activities such as admissions, registration, financial aid, and accounts receivable. Subsequently, MnSCU developed one information system to replace these former systems. The new system, the Integrated Student Record System (ISRS), contains various student data and registration modules which share common data through various interfaces. Winona State University started using the new accounts receivable module during the fall term of 1998.

The university allowed students to make tuition, fee, and room and board payments at either the cashier's office at the Winona campus, or at its Rochester Center located at the Rochester Community and Technical College campus.

Table 3-1 shows the head count of university students for the 1999 fall semester.

Table 3-1
Student Head Count
1999 Fall Semester

Student Type	Number of Students	Percent
Freshmen	1,983	28
Sophomores	1,252	18
Juniors	1,201	17
Seniors	1,615	23
Graduates	718	10
Other	289	4
Total	**7058**	**100%**

Source: MnSCU system management reports.

Winona State University

For the 1999-2000 school year, the university collected tuition at a resident rate of $88.30 per semester credit for undergraduate courses and $135.60 per semester credit for graduate courses. The university charged nonresident students $197.75 and $214.15 per semester credit for undergraduate and graduate courses, respectively. In the 1998-1999 school year, the university began "banding" its undergraduate tuition charges. The university charged students a fixed rate for registered credits between twelve and eighteen per semester. The banded rates for 1999-2000 were $1,330 and $2,965 for residents and nonresidents, respectively. The university charged students a variety of fees that totaled $18.73 per semester credit for 1999-2000, with a maximum of $258.80 per semester.

The university offered students several room and board options. The university offered nine different room plans based on room location, size, and number of roommates. Students chose from five different board plans based on the number of meals per week or total meals for the semester. For the 1999-2000 school year, room and board rates for various options ranged from $1,325 to $2,165 per semester. The university's dormitories and food service are part of MnSCU's system-wide Revenue Fund activity.

Accounts Receivable

The university required students to pay tuition, fees, and room and board charges by the 30th day after the first day of class. The university assessed late fees to students who did not pay their bill by the deadline and placed holds on the students' records. The university pursued past due accounts receivables by periodically mailing bills to students. If a student did not voluntarily pay, the university referred the account to the Minnesota Collection Enterprise, the state's centralized collection function. The Collection Enterprise pursues collection of the outstanding balance until the student pays off the balance or it determines the account is uncollectible. It returns uncollectible accounts to the university.

The new Integrated Student Record System accounts receivable module accumulates all student charges from various sources. When the students pay their bills at the cashier's office, staff enter the collections into the system and the system automatically applies the money to the outstanding balances in a specified priority order. As part of the closeout process, the accounts receivable module prints out a report, which summarizes the day's collections and postings. The staff use this report to balance their cash registers and post the transactions to MnSCU accounting and MAPS.

Conclusions

Winona State University's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the university complied, in all material respects, with the significant finance related legal provisions concerning tuition, fees, and room and board. However, the university did not write off old uncollectible accounts receivable balances, as discussed in Finding 5.

5. PRIOR FINDING NOT RESOLVED: The university did not write off old uncollectible account balances.

The university has not written off old uncollectible accounts receivable balances for several years. For past due accounts, the university generally established either payment plans with students or referred the account to the Minnesota Collection Enterprise, the state's centralized collection function, or to a private collection agency. Despite these collection efforts, as of February 2000, the university had $162,000 in past due accounts, most of which the university has deemed to be uncollectible. The university should write-off those accounts determined to be uncollectible, so that it could maximize its collection resources on accounts with the greatest collection potential.

Recommendation

- *The university should work with the system office to remove old, uncollectible account balances from its records.*

Chapter 4. Payroll

Chapter Conclusions

Winona State University's internal controls provided reasonable assurance that employee and student payroll transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, Winona State University complied, in all material respects, with the significant legal provisions concerning employee and student payroll. However, as noted in Chapter 2, Finding 1, in certain cases the university assigned users incompatible clearances to the payroll system.

Payroll represents the largest expenditure category for Winona State University. The university incurred employee payroll expenditures of $38,518,304 and student payroll expenditures of $2,475,927 in fiscal year 1999. Table 4-1 shows the various types of employee compensation that comprised the overall payroll expenditures for fiscal years 1997 through 1999.

Table 4-1
Payroll Expenditures
Fiscal Years 1997 through 1999

Employee Payroll Category	1997	1998	1999
Unclassified Employees	$19,960,387	$20,366,153	$22,060,544
Classified Employees	6,741,975	7,112,635	7,600,704
Fringe Benefits	6,603,692	6,523,174	7,243,106
Separation Pay [1]	604,095	637,344	634,185
Para Prof/Grad Assistant	263,440	234,864	278,558
Prior Year Salary Settlement	0	0	697,355
Relocation Expenses	803	5,360	3,853
Employee Payroll Total	$34,174,392	$34,879,529	$38,518,304
Student Payroll Total	$ 2,697,669	$ 2,389,044	$ 2,475,927

(1) Salary incentives for early retirements and other voluntary separations.

Source: The MnSCU accounting system and SCUPPS.

Audit Objectives and Methodology

We focused our review of payroll expenditures on specific audit objectives related to the following questions:

Winona State University

- Did Winona State University's internal controls provide reasonable assurance that employee and student payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did Winona State University comply, in all material respects, with significant finance-related legal provisions concerning payroll?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel process. We interviewed university employees to gain an understanding of the personnel and payroll accounting systems used by the university and observed the application of procedures used to process and reconcile payroll transactions. We reviewed the computer system security clearances for payroll and human resources personnel. We performed various detailed tests of employee and student payroll transactions to support our conclusions. Finally, we reviewed faculty release time assignments.

Employee Payroll Processing

During February 2000, the university's workforce equaled 238 classified and 465 unclassified employees. The following organizations represent the university's employees:

- The Inter Faculty Organization (IFO)
- The Minnesota State University Association of Administrative and Service Faculty (MSUAASF)
- The Excluded Administrators Plan
- The American Federation of State, County, and Municipal Employees (AFSCME)
- The Middle Management Association (MMA)
- The Minnesota Association of Professional Employees (MAPE)

During our audit period, the university used the State's Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. The university used the SCUPPS system to monitor and evaluate compensation paid to employees. It also used it to identify the different types of classification assignment codes pertaining to faculty appointments. SEMA4 contained pay rate information and calculated the employee payroll amount. The university also used the SCUPPS leave module.

The university maintains separate human resource and payroll offices to process personnel and payroll transactions. A human resource office employee enters personnel transactions into SCUPPS while a payroll office employee ensures the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system.

Winona State University

Student Payroll

The university employs students to perform various job duties throughout the campus. In fiscal year 1999, the university paid $2,475,928 to students through three separate student payroll programs. The university participated in both the federal and state work-study programs, which provided funding to students based on financial need. The university also used a third program for student help that was not financial aid based.

The university business office entered appointment and tax information into the student payroll system for later calculation of paychecks. Students completed bi-weekly timesheets that their supervisors signed and forwarded to the business office. The business office entered the timesheets into the student payroll system that printed the payroll checks. The business office subsequently distributed the payroll checks to the students.

Conclusions

Winona State University's internal controls provided reasonable assurance that employee and student payroll transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, Winona State University complied, in all material respects, with the significant legal provisions concerning employee and student payroll. However, as noted in Chapter 2, Finding 1, in certain cases the university assigned users incompatible clearances to the payroll system.

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Chapter 5. Administrative Expenditures

Chapter Conclusions

Winona State University's internal controls provided reasonable assurance that administrative expenditure transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we also found that the university obtained certain goods and services before encumbering the funds or receiving required prior approvals. The university also did not adequately safeguard its fixed assets and consumable inventories. We also noted in Chapter 2, Finding 1, that in certain cases, the university assigned users incompatible computer system clearances for the purchasing and disbursing functions.

Administrative expenditures included payments for non-payroll items, such as purchased services, supplies, equipment, contractual services, and utilities. To purchase goods or services, university departments submitted an authorized purchase requisition to the purchasing department. The purchasing department verified that funds were available in the appropriate cost center for the purchase, encumbered the funds, created a purchase order, and sent it to the vendor. The business office received the invoice and matched it to the purchase requisition and purchase order. The business office sent a copy of the invoice to the department receiving the goods or services. The department verified the receipt of the goods or services and authorized the payment. Accounts payable clerks in the business office processed the payments on the MnSCU accounting system.

Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were as follows:

- Did Winona State University's internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did Winona State University comply, in all material respects, with significant finance-related legal provisions concerning administrative expenditures?

To meet these objectives, we interviewed university employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if the university properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if Winona State University complied with applicable legal provisions. Finally, we reviewed the university's process to record, track, and safeguard its fixed assets.

Purchased Services

Winona State University paid $5,409,853 for purchased services during fiscal year 1999. Table 5-1 shows the university's purchased services expenditures by category for that year.

Table 5-1
Summary of Purchased Services
For Fiscal Year 1999

Purchased Service Category	Amount
Contracted food service	$2,368,691
Other purchased services	1,052,761
Repairs and alterations	813,212
Rent [(1)]	433,088
Advertising	91,334
Equipment rental and repairs	68,567
Office	113,690
Building maintenance	468,510
Total	$5,409,853

(1) Includes the university's payment to Rochester Community College for its portion of the Rochester Center space.

Source: MnSCU accounting reports.

Supplies

Winona State University paid $2,702,968, $3,489,477, and $3,801,350 for supplies during fiscal years 1997, 1998, and 1999, respectively. The university operates its own maintenance supply room for semi-consumable inventory and a central store for office supplies. The university's central stores activity has unique cost centers that allow it to use a charge-back system to charge users for supplies. Winona State University's central store also has a computerized inventory system to track inventory on hand.

When a department needs supplies, it completes a central stores order form. After filling orders, the university's central stores' staff forward the order forms to the business office. The business office inputs the transactions into the MnSCU accounting system to reflect the transfer of goods. It transfers the expenditure from the central stores account to the cost center of the department that ordered the supplies.

Equipment

Winona State University purchased $1,914,216, $868,732, and $1,420,289 worth of equipment during fiscal years 1997, 1998, and 1999, respectively. As of February 2000, the university fixed asset records reported $16,760,758 (historical cost) worth of fixed assets. Winona State University defined equipment as all machinery, vehicles, instruments, apparatuses, furniture, and other articles that met all of the following requirements:

- had a unit cost of $500 or more ($1,000 beginning in fiscal year 1997),
- had a useful life of more than one year, and
- retained its identity for inventory purposes.

Contractual Services

Winona State University paid $2,589,654 for consultant and contract services during fiscal year 1999. Table 5-2 shows the university's consultant and contract services expenditures by category.

Table 5-2
Summary of Consultant and Contract Services
For Fiscal Year 1999

Consultant/Contract Services	Amount
Computer Production/Maintenance/Software	$1,061,515
Network Services (Telephone)	333,198
Educational and Instructional Consultants	306,915
Architect and Engineering Consultant	129,137
Public Speakers	85,340
Medical and Dental Services	82,613
Other Communication	114,375
Expense Reimbursement	$70,765
Other Consultants	133,746
Office Services	272,050
Total	$2,589,654

Source: MnSCU accounting reports.

Conclusions

Winona State University's internal controls provided reasonable assurance that administrative expenditure transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that the university obtained certain goods and services before encumbering the funds or receiving required prior approvals, as discussed in Finding 6. We also found that the university did not have adequate controls over its fixed assets and consumable inventories, as discussed in Findings 7 and 8. We noted in Chapter 2, Finding 1, that in certain cases, the university assigned users incompatible computer system clearances for the purchasing and disbursing functions.

6. PRIOR FINDING PARTIALLY RESOLVED: Winona State University obtained some goods and services before encumbering the funds or receiving required prior approvals.

The department responsible for construction projects at Winona State University did not process change orders or inform the business office before incurring the obligation. According to the university's purchasing policies and procedures, a department must submit a purchase requisition to the purchasing department when it wishes to obtain goods or services. The purchasing department then certifies unencumbered balances, encumbers the funds, creates purchase orders, and places the orders. In one example, the facilities department allowed work to begin on a $578,000 project before a contract was signed between the university and the contractor. Subsequently, the department allowed three change orders totaling $168,980 to be put into effect without encumbering the funds. The university should approve and encumber all construction projects before work begins.

In addition, some departments did not request prior approval from the business office before incurring special expenses. Special expenses are necessary costs, such as meals within an employee's work area, which would not normally be reimburseable. According to university policy, approval for special expenses must be obtained in advance from the department head or designee.

Finally, the university continued to incur some obligations for supplies, purchased services, and equipment purchases before it verified the availability of the necessary funds. Despite an ongoing training effort by the university, some departments continued to order goods or services without first encumbering the funds or notifying the business office about the purchase.

Recommendation

- *Winona State University should ensure that all purchases of goods and services are approved and encumbered before incurring the obligation.*

7. Winona State University did not adequately account for and safeguard its fixed assets.

Winona State University did not record current locations for its fixed asset inventory. The university also did not properly affix the State of Minnesota stickers to all of its fixed assets. MnSCU System Procedure 5.5.2, Part 11, Fixed Assets, requires that the institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000.

The following are examples of problems that occurred as a result of inadequate inventory controls:

- One university computer lab did not contain any of the 83 computers, printers, and other equipment identified on the MnSCU Fixed Asset Inventory System as being located in that lab; 62 items recorded on the list and assigned to the lab had never been installed in the lab.

- The university deleted 496 of its approximately 2,300 computers from the equipment inventory system because it could not locate them. The deletions occurred after the university conducted a complete physical inventory in February 1998. The equipment inventory system did not even list asset numbers for 19 of the 496 missing computers. In a memo dated March 24, 1998, the university's fixed asset coordinator stated "Most of [the computers] were deleted because their location was unknown . . .I believe there are numerous computers on campus that were not found becaue they are stashed in closets, cabinets, odd rooms, etc."

- Finally, some departments of the university did not attach identification stickers to fixed assets, semi-consumable assets, and sensitive items in compliance with established policies and procedures. The university is required to affix "Property of the State of Minnesota" stickers on all assets whether or not they are recorded on the inventory listing. The university requires each department to request the stickers to affix to the assets. However, not all of the departments complied with this policy and had not requested or attached the stickers.

Recommendations

- *Winona State University should ensure that it accurately records all of its assets on its fixed asset inventory system. It should ensure that all transfers and disposals of fixed assets are recorded in a timely manner.*

- *Winona State University should attach the "Property of the State of Minnesota" stickers to fixed assets, semi-consumable assets, and sensitive items in compliance with established policies and procedures.*

8. Winona State University did not adequately secure its consumable inventory storeroom.

Winona State University did not adequately secure its consumable inventory storeroom. As of February 2000, the university had 4,460 items, worth about $260,500 in the storeroom. The university's physical plant uses the storeroom to store its materials, parts, and other items its needed for its operations. During the audit, we observed that the university did not physically secure access to the storeroom. The storeroom doors were not secured and we were able to walk throughout the building without any employees challenging our presence. To adequately safeguard its assets, the university needs to implement physical controls to restrict unauthorized access to the storeroom.

Recommendation

- *Winona State University should implement physical controls to secure its physical plant's consumable inventory storeroom.*

Chapter 6. Student Financial Aid

Chapter Conclusions

Winona State University's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. Winona State University's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, the university complied with applicable federal requirements over receiving federal funds. However, we found that it did not conduct any exit counseling interviews for the fall 1999 semester for students that received Federal Family Education Loans.

Winona Sate University participates in the following student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplementary Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- Federal Perkins Loan Program (CFDA #84.038)
- Minnesota State Grant Program

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to financial aid programs as of December 31, 1999:

- Did Winona State University's internal controls provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?

- Did the university's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?

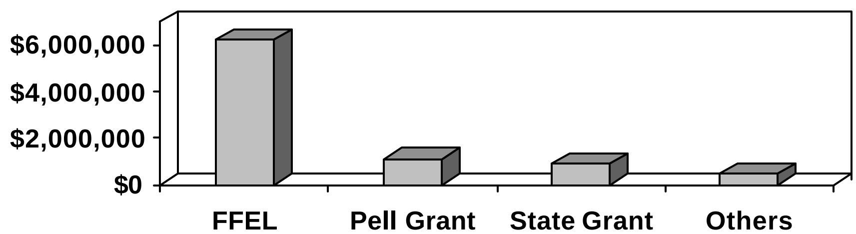
Winona State University

- For the items tested, did the university comply with applicable federal requirements over receiving federal funds?

To address these questions, we evaluated and tested controls over compliance for determining student eligibility, and awarding, packaging, and disbursing federal financial aid. We also evaluated and tested the university's federal cash management procedures.

Figure 6-1 shows financial aid expenditures by program for fiscal year 2000 as of December 31, 1999.

Figure 6-1
Student Financial Aid by Programs
Fiscal Year 2000 as of December 31, 1999



Note: "Other" consists of Perkins Loans, Federal Work-Study, and Federal Supplementary Education Opportunity Grants.
Source: December 31, 1999, MnSCU replicated database and Winona State University's accounting records.

Financial Aid Process

Students completed an application for financial aid and submitted it to a federal central processing unit. The university received the information for the students that applied for enrollment. Winona State University used a packaging software system called SARA to package, award, and disburse student financial aid.

Students generally received the Federal Pell Grant as the first source of assistance. The federal government did not limit Pell Grant funding to the university; all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 1999-2000 award year equaled $3,125. A federal central processing system determined each student's Pell Grant award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

Winona State University

Under the Federal Family Education Loan (FFEL) Program, loans went to a guaranty agency where private lenders were contacted to provide the loan principal to eligible students. The federal government guaranteed the loan. For Federal Stafford Loans, the federal government paid interest to the lender while the student attended school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrued from the date of origination and the borrower assumed responsibility for the interest. First year students could borrow up to $2,625 per year under the Federal Subsidized and Unsubsidized Stafford Student Loan programs. Second year students could borrow up to an additional $3,500. Students with more than two years of schooling could borrow up to $5,500 each year.

The university awarded Federal Perkins Loans to students that demonstrated exceptional financial need. The university gave priority to Federal Pell Grant recipients with the most need. Interest at the rate of five percent per year begins to accrue six to nine months after the student ceased his/her education, but the student can defer the repayment for up to three years because of service in the Armed Forces or Peace Corps. Additionally, some students had all or part of their loan canceled based on their area of study. The promissory note that the student signed before receiving the loan proceeds explained all of these terms and options.

Minnesota residents that demonstrated financial need could receive a Minnesota State Grant. The state made the awards to undergraduate students attending schools in Minnesota, who did not exceed the equivalent of 12 full-time quarters of attendance. Awards ranged from $300 to $8,300 per academic year.

Conclusions

Winona State University's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. Winona State University's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, the university complied with applicable federal requirements over receiving federal funds. However, we found that it did not conduct any exit counseling interviews for the fall 1999 semester for students that received Federal Family Education Loans.

9. Winona State University did not conduct required exit counseling for the Federal Family Education Loan programs.

Winona State University did not conduct any exit counseling during the 1999 fall semester for students that received Federal Family Education Loans. The university did not conduct exit counseling either for those students who were not registered after the fall semester drop/add period in September 1999 or for those who graduated in December 1999. Federal regulations require that:

> ...a school can conduct exit counseling either in person, individually or in groups, or by electronic means, shortly before a borrower ceases at-least-half-time study. If the borrower drops out without notifying the school, the financial aid administrator must mail exit counseling material to the borrower at his or her last known address within 30 days after learning that the borrower has left school or failed to attend an exit counseling session.

During the fall semester, Winona State University was implementing an on-line exit counseling system. However, the university did not implement the new system in time to conduct the interviews. As of February 2000, the university had not conducted the required interviews.

Recommendation

- *Winona State University should conduct exit counseling interviews with the students as required by federal regulations.*

Chapter 7. Bookstore Operations

Chapter Conclusions

Winona State University's internal controls provided reasonable assurance that bookstore revenue and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the university complied, in all material respects, with the significant finance-related legal provisions governing bookstore expenses.

The Winona State University bookstore sells school materials and supplies. The products include textbooks, school supplies, clothing, gifts, and other items. Table 7-1 shows the bookstore's income statement for the year ended June 30, 1999.

Table 7-1
Bookstore Income Statement
Fiscal Year 1999

Sales		**$2,700,979**
Cost of Goods Sold		
Beginning Inventory	$ 289,644	
Purchases	1,938,797	
Goods Available for Sale	2,228,441	
Less: Ending Inventory	361,344	
Total Cost of Goods Sold		**1,867,097**
Gross Margin		**833,882**
Operating Expenses		
Salaries	306,801	
Rent [(1)]	66,972	
Benefits and Student Help	55,935	
Fixture Depreciation	38,104	
Services	22,198	
Other	17,031	
Total Operating Expenses		**505,041**
Income from Operations		**328,841**
Other Revenue	83,518	
Other Expenses	(18,401)	**65,117**
Net Income		**393,958**
Transfer Out [(2)]	(200,000)	
Net Increase to Retained Earnings		**$193,958**

(1) The bookstore pays rent to its landlord, the Winona State University student union.
(2) Includes $200,000 transferred to the Presidential Scholarship program.

Source: Winona State University prepared financial statement (unaudited), as adjusted.

The bookstore uses a point of sale computer system called PRISM for purchasing, receiving, and recording inventory and sales. Bookstore staff monitor inventory and generate purchase orders in PRISM to purchase items as needed. When staff record purchased items received, PRISM generates bar-code labels for the items. Cashiers scan the bar codes to check out customers and process sale transactions. The bookstore conducts an annual physical inventory at the end of each fiscal year, and staff scan the bar codes of inventory items to count items on hand.

The bookstore accepts cash, check, or credit card payments. It also offers gift certificates that customers may purchase for any amount, and recipients can use them to purchase any bookstore item. The bookstore establishes department charge accounts in PRISM that allow university employees to purchase items for their department and charge the purchase to their department cost center. It also establishes student charge accounts for students who have a third party that agreed to pay for a certain amount of school expenses. When customers purchase items using a charge account, PRISM generates an invoice that must be signed by the customer. The bookstore submits signed invoices to the business office monthly. Business office staff process payments from various departments to the bookstore for department charges, and submit invoices to third parties for student charges.

PRISM generates daily sales reports for each register that summarize receipts by payment type and sales item type. The bookstore’s cash reconciliation process includes counting cash receipts, balancing receipts to sales reports, and preparing the daily cash deposit and sales report. Bookstore staff lock receipts in a safe until the next morning when a courier transports the deposit across campus to the university cashier. The university cashier includes the bookstore deposit with the deposit of other university receipts, and the courier takes the deposit to the bank. Business office staff use the daily cash deposit and sales report to record bookstore sales in MnSCU accounting.

The university used most of the bookstore's profits to award Presidential Scholarships to university students. In fiscal year 1999, the university transferred $200,000 from the bookstore to the Presidential Scholarship program.

Audit Objective and Methodology

We focused our audit of bookstore operations on the following objectives:

- Did the university’s internal controls provide reasonable assurance that bookstore revenue collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management’s authorization?

- Did the university’s internal controls provide reasonable assurance that bookstore disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management’s authorization?

Winona State University

- For the items tested, did the university comply, in all material respects, with the significant finance-related legal provisions concerning bookstore expenses?

To meet these objectives, we interviewed bookstore staff to gain an understanding of controls over bookstore revenues and expenses. We reviewed samples of revenue transactions to determine if the university properly deposited and recorded bookstore receipts. We also reviewed a sample of expenditure transactions to determine if the university properly authorized, processed, and recorded the expenditures. Finally, we reviewed security reports for the bookstore's computer system to determine if the university adequately limited access to the system.

Conclusions

The university's internal controls provided reasonable assurance that bookstore revenue and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the university complied, in all material respects, with the significant finance-related legal provisions concerning bookstore expenses.

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Status of Prior Audit Issues
As of March 16, 2000

Most Recent Audits

University Audit

Legislative Audit Report 97-39, issued in July 1997, covered the university's material activities and programs, including tuition, fees, and room and board revenues, payroll and administrative expenditures, student financial aid, bookstore activities, health service activities, and the student union. The report contained seven findings. The university implemented the recommendations relating to prior findings 2 and 6. Prior findings 4 and 5, regarding writing off uncollectible accounts receivable and encumbering funds before incurring obligations, are repeated in this report. Although the university resolved many of the individual instances of incompatible conputer clearances cited in the prior report, we found additional incompatibilities reported in current finding 1.

Finding 3 in the prior report pertained to allowing students with tuition waivers to register with all of the students rather than on a "space available basis." Winona State University contends that it is not cost beneficial to manage space availability by class as prescribed in the bargaining unit contract. That finding was not repeated in this report. We did not pursue the status of Finding 7, pertaining to the student union, as part of this audit. However, MnSCU internal audit considers prior Finding 7 to be implemented.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Winona State University.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1998. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report included two findings related specifically to Winona State University. Both findings have been resolved.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

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Winona State University

P.O. Box 5838
Winona, Minnesota 55987-5838
Telephone (507) 457-5000

April 28, 2000

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

I would like to take the time to thank you and your staff for the professional manner in which our recent audit was conducted. The findings and recommendations will help us improve the financial management at our university. Our responses appear beneath each finding as follows:

1. Winona State University did not adequately restrict certain computer security clearances.

Response: The MNSCU computer security system currently places several incompatible functions within the same security group. This forces the incompatible clearances shown. Other controls are in place and no instance of incompatible use was noted.

Winona State is currently working with the system office to change the security groupings. The MNSCU finance users group met on April 27, 2000 to recommend changes for the AC and AR modules.

We have removed the student worker's ID from the system and it had been disabled shortly after the student left employment.

Winona State has removed the update access to SCUPPS that was inappropriate. This employee was mistakenly given update instead of view access. The employee did not have access to payroll functions and could not have produced improper payroll transactions without alerting the payroll clerk.

We have removed the authority to create purchase orders from the accounts payable clerks.

The Physical Plant department head has a new password and it is no longer shared.

Responsible person: MNSCU System Office and Joe Whetstone

2. Winona State University did not maintain sufficient collateral for its local bank accounts.

   Response: We agree. Additional collateral has been called for and will be pledged by July l, 2000 in plenty of time for the fall semester financial aid transfer. We will be covering the full amount throughout the year and not only at the peak times.

   Responsible person: Joanne Lanik

3. Winona State University did not properly resolve payroll clearing account balance.

   Response: We concur. The entry has been made on February 8, 2000 for prior years and will be made well before the close of this fiscal year.

   Responsible person: Joanne Lanik

4. Winona State University did not properly account for certain private grant activities.

   Response: We agree that these service areas may no longer be coded correctly as a private grant or gift. However, we did apply for and receive funds when these grants were initiated and do feel that they were coded correctly at that time. The service areas changed over time and became very self- supporting and may no longer be coded correctly. The system office will be looking at all private grant funds for all schools and any changes in the type of funding will be corrected by the new fiscal year.

   On the second point of billing for services, we agree. The process and computer system is now working better and we have already taken over the invoicing and collection for this service area.

   Responsible person: MNSCU System Office and Joanne Lanik

5. The university did not write off old uncollectible account balances.

Response: We concur. During the prior audit the University was scheduled to transition to the new MNSCU integrated accounts receivable system. We anticipated that the new system would have a method for properly writing off uncollectible accounts and planned to remove old account balances at that time. (Fall 1998) The MNSCU accounts receivable system does not have a method for properly writing off uncollectible accounts. Winona State is currently working with the MNSCU system office to produce a method for properly writing off uncollectible accounts. The MNSCU finance users sub-group is scheduled to begin meeting on accounts receivable collection procedures in May 2000. Winona State will write off uncollectible account balances as soon as a method for properly doing so is available within the current accounts receivable system.

Responsible person: MNSCU System Office and David Thorn

6. Winona State University obtained some goods and services before encumbering the funds or receiving prior approvals.

Response: We concur. The facilities department will implement written procedures to be followed for all facilities contracts and subsequent change orders. The procedure will include necessary on site approval of change orders, by the project manager who has full knowledge of the project budget available. The funds will be encumbered within 24 hours of the approval.

The Business Office will continue to work with user departments with regard to special expense forms and late encumbrances by informing them of policies and procedures via email, the web site, mass mailings, training sessions and personal letters. We have and will force people to return non-encumbered supply items or to pay for them with other than University funds. We have requested our Presidential cabinet to review the problems, especially for food and purchased services, and recommend appropriate recourse for departments that violate the procedures.

Responsible person: Richard Lande and Sandra Schmitt

7. Winona State University did not adequately account for and safeguard its fixed assets.

Response: We agree. A physical inventory of all fixed assets is on schedule for this summer for all areas. At that time, any other equipment of a sensitive nature will be marked with the State of Minnesota stickers. Training will be completed before this next fall semester for all departments regarding the rules and procedure for handling equipment. Directions for moving, obtaining and disposing of equipment will be covered.

Responsible person: Richard Lande and Nancy Amann

8. Winona State University did not adequately secure its consumable inventory storeroom.

Response: We concur. A security camera for the Physical Plant storeroom has been ordered and will be installed very soon. The back door now has an alarm installed on it and will be used for emergency only. The large doors are locked when not in use. This will leave only one entrance into the storeroom, which will be monitored by the security camera as well as the staff.

Responsible person: Richard Lande

9. Winona State University did not conduct required exit counseling for the Federal Family Education Loan programs.

Response: We concur. The on-line exit counseling system has been implemented. As of early March, 2000 all retroactive and current exit interviews had been conducted. The university will continue to engage this process so that no subsequent delays in exit counseling will occur.

Responsible person: Greg Peterson

Sincerely,

/s/ Darrell Krueger

Dr. Darrell Krueger
President
Winona State University