St. Cloud State University

Financial Audit
For the Period July 1, 1995, through June 30, 1998

May 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-28

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SUMMARY

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Public Release Date: May 19, 1999 No. 99-28

Background

St. Cloud State University (SCSU) is the largest of seven state universities within the Minnesota State Colleges and Universities (MnSCU) with an enrollment of more than 14,000 students. The university offers comprehensive undergraduate and graduate programs and diverse opportunities such as international study. During the scope of our audit, Dr. Bruce Grube was president of St. Cloud State University.

Audit Scope and Conclusions

Our audit scope included a review of university financial management, tuition and fees, room and board revenues, employee and student payroll, selected expenditure areas, computer store operations, and miscellaneous revenues for the period July 1, 1995, through June 30, 1998. We also examined the administration of federal financial aid programs for fiscal years 1998 and 1999.

The audit found that St. Cloud State University designed and implemented internal controls to provide reasonable assurance that it operated within its available resources and monitored revenue and expenditure budgets. However, we noted that certain financial activities were not properly recorded, state treasury and local bank accounts were not reconciled on a timely basis, and access privileges to computerized accounting and payroll business systems were not adequately restricted. We also identified a concern with the university's relationship with its foundation.

The university designed and implemented controls to provide reasonable assurance over accuracy and recording of revenues, payroll, and other expenditures. Findings relating to safeguarding and depositing controls over computer store and miscellaneous revenue collections were identified. In addition, the university had ineffective inventory and financial monitoring practices to monitor computer store activities.

Computerized application controls were designed and implemented by the university to provide reasonable assurance that it managed its financial aid programs in compliance with federal and state regulations. The computer edits eligibility, packages and awards grants and loans to students, verifies enrollment, and interfaces balances into accounts receivable and student records. However, we noted instances of noncompliance resulting from certain difficulties encountered during implementation of this computerized application.

St. Cloud State University agreed with most audit findings and is taking corrective actions to resolve the issues. However, they disagreed with our finding concerning improper accounting for sponsored program income. They also felt that the university's employment of the foundation's executive director conforms with MnSCU policy.

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

Mr. Morris J. Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Bruce Grube, President
St. Cloud State University

We have audited selected areas of St. Cloud State University for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included: tuition and fees, room and board revenues, payroll, selected expenditure areas, computer store operations, and miscellaneous revenues. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal years 1998 and 1999. 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 St. Cloud 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 St. Cloud 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 19, 1999.

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

End of Fieldwork: January 15, 1999

Report Signed On: May 13, 1999

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St. Cloud State University

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Audit Participation

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

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David Poliseno, CPA, CISA	Auditor-In-Charge
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Exit Conference

We discussed the findings and recommendations with the following representatives of St. Cloud State University and the MnSCU system office at the exit conference held on April 27, 1999:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor
Deb Winter	Director of Campus Accounting
John Asmussen	Executive Director – Internal Auditing
Melissa Primus	Audit Coordinator – Internal Auditing
St. Cloud State University:	
Gene Gilchrist	Vice President, Administrative Affairs
Frank Loncorich	Director, Financial Aids
Richard Burke	Director, Business Services

Chapter 1. Introduction

St. Cloud State University (SCSU) was established in 1869. The campus is located 70 miles northwest of the Twin Cities. The university offers students a comprehensive undergraduate and graduate program of more than 130 fields of study in five colleges and the School of Graduate and Continuing Studies. In addition to its on-campus programs, St. Cloud State University provides students with unique opportunities for international education, offering residential undergraduate study programs in England, France, Germany, Japan, and Costa Rica.

With an enrollment of more than 14,000 students, St. Cloud State University is the largest of the seven state universities within the Minnesota State Colleges and Universities (MnSCU). Among some of the unique fields of study are mass communication, business computer and information systems, child and family studies, insurance and risk management, meteorology, aviation, information media, electrical and manufacturing engineering, biotechnology, and criminal justice. The university also offers a nationally recognized honors program for highly motivated students with demonstrated academic strengths. During the scope of our audit, Dr. Bruce F. Grube was the president of St. Cloud State University.

SCSU 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 the individual colleges and universities based on a formula. Table 1-1 provides a summary of the university's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for the fiscal year ended June 30, 1998.

Table 1-1
St. Cloud State University
Sources and Uses of Funds
Fiscal Year Ended June 30, 1998

	General Fund	Special Revenue Fund	Enterprise Funds
July 1, 1997 Fund Balance	$ 9,466,324	$ 982,071	$12,900,299
State Appropriation	44,383,825	0	0
Revenues:			
Tuition and Fees	32,294,241	2,463,473	1,526,361
Grants	1,125,446	6,073,063	43,796
Miscellaneous Fees	1,089,103	699,730	355,692
Ticket Sales	0	722,449	0
Room and Board	227,269	160,487	8,414,047
Commissions	197	0	894,772
Other	1,295,195	252,113	1,861,248
Transfer In	227,034	121,640	1,979,485
Subtotal Revenues	$36,258,486	$10,492,955	$15,075,401
Total Resources	$90,108,636	$11,475,026	$27,975,700
Expenditures:			
Employee Payroll	59,828,438	2,580,754	2,596,363
Supplies/Materials	3,834,534	585,035	933,217
Purchased Services	3,271,891	633,946	3,533,312
Student Payroll	2,861,550	353,614	804,456
Utilities	1,935,032	0	608,134
Equipment	1,334,387	93,226	82,801
Employee Reimbursement	915,662	123,981	18,405
Repairs and Betterments	767,752	33,095	1,154,756
Financial Aid	298,873	4,407,647	291,461
Other	3,039,036	1,707,114	1,062,302
Transfers Out	227,074	166,151	763,208
Total Expenditures	$78,314,231	$10,684,564	$11,848,415
June 30, 1998 Fund Balance	$11,794,405	$ 790,463	$16,127,286

Note 1: The university indicated that $6.8 million of the June 30, 1998, fund balance is reserved for future obligations, such as faculty professional development, outstanding encumbrances, and contractual commitments.

Note 2: An additional $4,172,091 was expended on Capital Projects from July 1, 1995, to June 30, 1998. The university's Capital Project fund balance as of June 30, 1998, was $30,859,929.

Note 3: Table 1-1 financial balan ces were derived from MnSCU accounting and not adjusted for classification concerns identified in Chapter 2, Finding 1. Also agency fund financial activities (held in a custodial capacity) are not shown.

Note 4: Table 1-1 is prepared on the budgetary bas is of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. Compensated absences as of June 30, 1998, were estimated at $8.8 million. Also, the unrecorded liability for 1998 contract increases paid to faculty and administrators for contracts settled during fiscal year 1999 is estimated at $1.4 million.

Source: MnSCU General Le dger Accounting System as of September 30, 1998.

Chapter 2. Financial Management

Chapter Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that it operated within available resources and had an effective process to monitor its revenue and expenditure budgets. However, we identified some concerns with the university's financial control structure. The university did not properly account for or classify certain financial activities and did not perform timely reconciliations of MnSCU accounting to state treasury cash, revenue, and expenditure balances. In addition, SCSU had not reconciled its local bank accounts to MnSCU accounting since June 1998. We also noted that the university did not adequately restrict computer access in several areas.   Finally, we determined that the university needs to clarify the operating relationship with its foundation. SCSU did not have a current contract with its foundation and performed certain managerial functions for the foundation.

On July 1, 1995, the consolidated Minnesota State Colleges and Universities (MnSCU) began operations. At that time, a new computerized accounting system, MnSCU accounting, as well as the State Colleges and Universities Personnel/Payroll System (SCUPPS) were implemented. MnSCU required all campuses to use the MnSCU accounting system to account for money maintained within the state treasury and local bank accounts maintained outside the state treasury. St. Cloud State University administered certain funds, such as financial aid, agency accounts, and enterprise activities in a local bank account. A different account served as the state depository for transfer of funds into the state treasury.

The State of Minnesota also implemented computerized financial and personnel/payroll systems in 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. The university used the MnSCU accounting system to initiate transactions that involved appropriated funds. Through a system interface, MnSCU accounting system updates these transactions into MAPS, which generates state treasury warrants for state-appropriated expenses. Similarly, the State Employment Management System (SEMA4) is used to generate warrants initiated in the university's SCUPPS subsystem.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to St. Cloud State University and all other MnSCU campuses based on an allocation formula. St. Cloud State University, like all other MnSCU institutions, retains its tuition and other dedicated revenues to arrive at total resources available for operations and spending.

Once the university determines its authorized spending level, it allocates spending budgets for various administrative areas and academic departments. The university projects payroll costs, allocates department supply and equipment budgets, and 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 sufficient tuition revenues are generated to support the spending budget. The university also budgets a reserve amount. As shown in Table 1-1, SCSU had a fund balance of $11.8 million in its General Fund accounts for fiscal year ended June 30, 1998.

St. Cloud State University is affiliated with the St. Cloud State University Foundation, a non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The university provided administrative support to the foundation. Foundation financial statements are prepared annually and subjected to an external audit by a CPA firm. According to the audited 1998 financial statements, the St. Cloud State University Foundation had total revenues of $5,896,009 and total expenses of $2,393,945. As of June 30, 1998, the foundation had an ending fund balance of approximately $14 million.

SCSU received private grants and endowments from various organizations, including its foundation, for student scholarships and other programs. It received local scholarship and grant funding for specifically identified students, and also funding where grantors specified eligibility criteria and the university selected the students. Finally, the university also received grant funds which finance certain private projects, programs, or activities consistent with its mission.

Audit Objectives and Methodology

Our review of St. Cloud State University's overall financial management focused on the following objectives:

- Did the university design and implement internal controls to provide reasonable assurance that it operated within available resources?

- Did the university design and implement internal controls to provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management authorization?

- Did the university establish an appropriate operating relationship with its foundation?

To answer these questions, we interviewed university personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. 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. Finally, we reviewed security privileges to determine whether the university had adequately restricted access to its computerized business systems.

St. Cloud State University

Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that it had an effective process to monitor its revenue and expenditure budgets and ensure it operated within available resources. However, as explained in the following findings, we found that the university did not properly account for or classify certain financial activities. We noted that reconciliations of MnSCU accounting to state treasury cash, revenue, and expenditure balances were not completed timely. As of January 1999, the university had not reconciled its local bank account to MnSCU accounting since June 1998. We also noted security concerns with employee access privileges. Finally, we determined that SCSU did not have an appropriate operating relationship with its foundation. No current contract existed with the foundation, and university personnel performed certain managerial functions for the foundation not allowed in MnSCU board policy.

1. St. Cloud State University did not properly account for certain financial activities.

St. Cloud State University did not properly classify and record certain activities and transactions in MnSCU accounting. Our analysis of MnSCU accounting revealed the following concerns:

- SCSU operates a computer store for resale to students and academic departments. As reported in Legislative Audit Report #99-19, Finding 4, the financial activities for the computer store were inappropriately accounted for in an Agency Fund rather than an Internal Service or Enterprise Fund. We believe the intent of this activity is to operate at a profit, or at least be self-sufficient and recover its costs, similar to a private business. Annual computer store revenues were approximately $2 million in fiscal years 1996 and 1997 and $1.5 million during fiscal year 1998. We noted other concerns with computer store operations as identified in Chapter 7 of this report.

- Bookstore, food service, and vending commissions, totaling in excess of $2 million for the past three years, were recorded in the Enterprise Fund rather than a Special Revenue or General Fund account. Generally, MnSCU campuses record their bookstore and food service operations in the Enterprise Fund if they operate similar to a private business and intend to measure profit or loss. However, SCSU contracts these operations, receiving a periodic commission. The commissions should be directed into a college operating fund type that better matches management’s intent to either make funding available for scholarships or defray operating costs of other areas. In addition to fund accounting issues, we noted in Chapter 8 that $30,000 to $60,000 in bookstore commissions were reported in the incorrect fiscal year.

- The university recorded monies generated through various privately sponsored programs, similar to customized training, as private grant revenues. For example, over $1 million was generated during fiscal years 1996 to 1998 for various driver and highway safety programs sponsored by AAA. A fee was charged for using university facilities and other resources to conduct training seminars. SCSU recorded this revenue as private grant income rather than sponsored program income.

- SCSU did not properly resolve payroll clearing account balances. We noted that the payroll clearing account had a reported cash balance of $2,299,913 as of September 30, 1998. Approximately $1.7 million pertained to fiscal year 1998. The university did not adjust cash for payroll expenditures recorded in other accounts.

- The university incorrectly coded various student fees, such as student activity, athletic, health service, and course fees as tuition revenues in the accounting system during the three-year period. Similarly, these financial activities were identified as 'other income.'

- Tuition refunds were posted to Enterprise Fund accounts when no tuition revenue was recorded in the fund. We found that SCSU posted tuition refund transactions totaling $47,865 and $52,485 for fiscal years 1997 and 1998, respectively.

In order for MnSCU accounting to accurately report the financial activities of the university, SCSU needs to ensure that it properly and consistently codes its transactions in the accounting system.

Recommendation

- *St. Cloud State University needs to review and revise its account structure to properly report financial activities in the correct fund type. Financial transactions need to be properly classified and consistently coded in the MnSCU accounting system, and payroll clearing account cash balances need to be resolved.*

2. St. Cloud State University did not verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in the state treasury and local bank accounts.

The university had not attempted critical state treasury and local bank reconciliations to the accounting system for the first six months of fiscal year 1999. These reconciliations were essential during transition to a new computerized accounts receivable system being implemented by MnSCU. Untimely reconciliations increase the risk that inaccurate transactions were posted in the accounting system, or that state treasury or local bank errors occurred but were not detected by university staff.

SCSU has not reconciled state treasury cash, revenues, and expenditures to MnSCU accounting in a timely manner. In particular, General Fund revenues in the state treasury have not been reconciled to MnSCU accounting since March 1998. General Fund expenditures were last reconciled to MnSCU accounting in June 1998. At the time of our audit, SCSU had not attempted any current fiscal year 1999 reconciliations for the General Fund. However, they did reconcile other selected funds in the state treasury through September 1999.

The university had not reconciled its local bank accounts since June 1998. It used two bank accounts to facilitate deposit of its funds. One account is a state depository from which receipts are "swept" by the State Treasurer's Office. The university transfers the remaining funds into a separate local bank account which holds student financial aid funds and other moneys. Reconciliation of these accounts provide an important assurance that the accounting records agree with bank cash inflows and outflows, and that no monetary errors or irregularities occurred. Without timely reconciliations, the risk of inaccurate or misleading financial information is increased.

Recommendation

- *SCSU should complete state treasury and local bank reconciliations on a timely basis to ensure the accuracy of MnSCU accounting transactions and balances.*

3. St. Cloud State University did not adequately restrict certain employee computer security access privileges.

St. Cloud State University did not adequately administer and control access to its computerized business systems, including MnSCU accounting, SCUPPS personnel/payroll, procurement and accounts receivable. The campus works with security administrators from its regional data center to administer access privileges for university employees. The university has the primary authority and responsibility to ensure employee access is necessary based on job responsibilities. Our review of employee computer access privileges disclosed the following concerns:

- Four business office payroll staff had inappropriate access to update human resource transactions on SCUPPS. The ability for payroll staff to initiate SCUPPS personnel transactions creates an unnecessary risk exposure. Unauthorized assignments could be processed and paid without the knowledge of the human resources office.

- One employee in the student records and registration office had excessive access to the student accounts receivable module. This user could update or modify tuition and registration charges and could also post accounts receivable collections and waivers.

- Two business office staff, who routinely enter disbursements into MnSCU accounting, had inappropriate ability to initiate purchase orders. This created incompatible privileges which increased the likelihood that errors or irregularities could occur and go undetected.

- Finally, we felt that the university did not effectively monitor computer security clearances of its employees. Two former university business managers, who no longer work in the business office, still had access to update the financial systems. The university needs to closely monitor access privileges to ensure that users are only assigned access rights needed to perform their job.

Recommendation

- *St. Cloud State University should improve security access controls by:*

  -- *restricting access to its business systems based upon job responsibilities;*
  -- *promptly canceling access for terminated and transferred employees; and*
  -- *periodically reviewing system user security reports and modifying any inappropriate system access privileges.*

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4. St. Cloud State University needs to clarify the operating relationship with its affiliated foundation.

The university has an unclear operating relationship with the St. Cloud State University Foundation. No contractual agreement between the parties has been in force since 1997. In addition, the university employs the foundation executive director, and unclear financial arrangements have been developed. The foundation's degree of independence is blurred by the university's direct oversight and management of foundation operations.

The St. Cloud State University Foundation is a private, tax exempt, nonprofit organization created solely for the purpose of raising funds to maintain and enhance university programs and operations. The university has effectively delegated its fundraising capacity to the foundation. Under the current structure, it is appropriate and necessary for the foundation to operate with a degree of independence from the university. However, the university has an obligation to ensure that foundation funds are used solely to benefit the university, its students, and the advancement of scientific, literary, or educational knowledge. It fulfills this obligation through external oversight and enforcement of a contract with the foundation.

The foundation provides considerable ongoing financial scholarship funding and resources to the university. In return, the university provides resources to support the foundation's activities. Our review of the foundation disclosed the following concerns:

- SCSU did not have a written contract with the St. Cloud State Foundation for fiscal year 1998. Also, as of February 1999, the university and the foundation ratified a contract for fiscal year 1999; however, the Attorney General's Office had not approved it. Written contracts establish the rights and responsibilities between the parties.

- It is unclear whether the level of university involvement in the foundation management conforms with the MnSCU policy on foundation relationships. Currently, the university employs the foundation's executive director who reports to the foundation's board of trustees, as well as the university president. MnSCU Board Policy 8.3 indicates the university may agree to provide administrative support to the foundation. It defines administrative support as follows:

  > *Services such as clerical and secretarial functions, accounting, book-keeping, use of equipment and facilities, record keeping, and coordination of fundraising activities. Administrative support does not include managerial, discretionary, or policy-making responsibilities.*

  The SCSU contract proposed for 1999 modified this standard contract language to indicate "*administrative support includes day-to-day managerial responsibilities, but not discretionary or policy-making responsibilities*." We found that the executive director's responsibilities included authorizing purchases, signing checks, and managing the day-to-day foundation operations. It is unclear whether the MnSCU policy on foundation relationships allows for limited management responsibilities or prohibits managerial involvement entirely.

St. Cloud State University

- Key financial relationships between the two parties were not clarified in writing. The audited foundation financial statements for 1998 disclosed taxable revenue earned from scoreboard and dasher board advertisements at the hockey arena. However, ownership of those items and rights to earned income was not defined in a written agreement, or an addendum to the contract.

MnSCU Board Policy 8.3 clearly requires a separate and legal distinction between the university and its foundation. This policy is intended to create an ‘arms-length’ entity and minimize potential conflicts of interest for university employees. To ensure that the foundation is separate and distinct, SCSU’s role in management or policy decisions of the foundation requires clarification.

Recommendations

- *St. Cloud State University needs to properly execute a written contract with its foundation on an annual basis. The agreement should clarify key financial arrangements between the parties, including consideration given and rights to income earned from revenue producing activities.*

- *St. Cloud State University should work with the MnSCU system office to clarify its foundation employment relationships and the level of management involvement allowed for in MnSCU policy.*

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Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that tuition, fees, and room and board revenues were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with finance-related legal provisions. However, we identified in Chapter 2, Finding 3, that the university did not adequately restrict computer security clearances to its accounts receivable system.

St. Cloud State University offers undergraduate and graduate programs to resident and nonresident students. Prior to the 1998-1999 school year, SCSU operated on a quarter basis. For 1998-1999 all MnSCU colleges and universities converted from the quarter basis to the semester basis academic year. As a result, the tuition credit rate increased significantly from fiscal year 1998 to 1999. The tuition and fee amount for a resident undergraduate student changed from $64.21 per quarter credit in the 1997-1998 school year to $100.42 per semester credit for the 1998-1999 school year. Also, the resident graduate tuition rate increased from $92.58 per quarter credit in the 1997-1998 school year to $144.72 per semester credit in 1998-1999. The university collected approximately $32.3 million in tuition and fees during fiscal year 1998.

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 admission, registration, financial aid, and accounts receivable. Recently, MnSCU has developed one information system to replace these former systems.

St. Cloud State University started using the new accounts receivable module during the fall term of 1998. The new system, Integrated Student Record System (ISRS), contains 17 modules which share common data through various interfaces. However, SCSU does not use all of the ISRS modules. For instance, it used the new registration module to build its class schedule for student registration but did not register students directly through the module. Rather, the university registered students in its legacy system which uploaded registered credits into the new registration module. The new module billed the student and interfaced charges into the accounts receivable module.

Beginning in 1998, the university used the ISRS student-housing module to assign room and meal plans to students. Students complete room and board contracts identifying the various housing and meal plan options selected. Student housing employees enter the information into the module which calculates the student bills and interfaces balances into the accounts receivable module. SCSU collected room and board revenues totaling $8.8 million during fiscal year 1998.

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St. Cloud State University allowed students to drop their classes by the end of the third class day to avoid obligation for tuition and fees assessed. It further required students to pay tuition, fees, and room and board charges by the 21st class day after which a $25 late fee is assessed. If students did not pay their bills by the specified due date, the university canceled their registration and the financial obligation to pay tuition owed During the 1998 fall semester, university staff indicated they cancelled about 300 students.

Accounts Receivable

SCSU used an old accounts receivable system to track past due accounts through August 1998. The university periodically mailed bills to students and eventually forwarded past due accounts to revenue recapture for collection. The university updated outstanding accounts receivable, up to two years old, on its new accounts receivable system. However, they had not formally written off uncollectible accounts receivable balances that were over two years old. Also, it did not utilize other resources available to it such as collection agencies or the Minnesota Collection Enterprise (MCE) at the Department of Revenue. As of June 30, 1998, the university reported accounts receivable for tuition and other student charges of $812,174, including $343,384 which were more than one year old.

The university began using the new ISRS accounts receivable module during the 1998 fall semester. The accounts receivable module accumulates all student charges from various sources. When the students pay their bills at the business 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 business office staff use this report to balance their cash registers and post the transactions to MnSCU accounting and MAPS.

Audit Objectives and Methodology

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

- Did SCSU design and implement internal controls to provide reasonable assurance that tuition, fees, and room and board revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions?

- Did SCSU comply with applicable legal provisions for the items tested?

To meet these objectives, we interviewed university employees to gain an understanding of controls over tuition, fees, and room and board revenues. We reviewed student registration, accounts receivable, and MnSCU accounting records for a sample of students to determine if SCSU charged the 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 complied with applicable legal provisions. Finally, we reviewed how the university monitored and pursued collection of outstanding accounts receivables.

Conclusions

The university designed and implemented internal controls to provide reasonable assurance that tuition, fees, and room and board revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorizations. For the items tested, the university complied with finance-related legal provisions. However, we noted in Chapter 2, Finding 3, that the university did not properly restrict computer security access to its accounts receivable system.

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Chapter 4. Employee and Student Payroll

Chapter Conclusions

St. Cloud State University designed and implemented internal controls that provided reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. The university complied with material finance-related legal provisions and bargaining agreements for transactions tested . However, as mentioned in Chapter 2, Finding 3, the university did not adequately restrict certain access privileges to the payroll and human resource systems.

Payroll represents the largest operating cost for St. Cloud State University. The university maintained separate human resource and payroll offices to handle personnel and payroll transactions. Human resource staff input personnel transactions into SCUPPS while payroll staff ensured the accuracy of employee payroll data in SEMA4 and payroll expenditures in the MnSCU accounting system. The university had employee payroll expenditures totaling $191,750,093 for fiscal years 1996 through 1998.

St. Cloud State University employed approximately 1,250 full and part-time faculty and administrators as of January 1999. All but approximately 40 employees are represented by exclusive representation. 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 American Federation of State, County and Municipal Employees (AFSCME)
- The Middle Management Association (MMA)
- The Minnesota Association of Professional Employees (MAPE)
- The Minnesota Nurses Association (MNA).

SCSU used the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage human resource information and employee salaries. SCUPPS identified different employee classification assignments and faculty appointments. Biweekly salary transactions were interfaced into SEMA4 for processing payroll warrants and ultimately posting payroll expenditures into MnSCU accounting. The university also used the SCUPPS leave module.

The university also employed students to perform various jobs throughout the campus. During the three fiscal years under review, SCSU paid over $18 million to students in various student payroll programs. The university participated in both the federal and state work-study programs, which provided funding to students based on financial need. SCSU also employed student workers who were paid from institutional funds. The university business office entered appointment and tax information into the student payroll system for use in paycheck calculations. Students provided biweekly timesheets to their supervisors for approval. The supervisors summarized hours on a student payroll report that was submitted to the business office. The business office entered timesheet hours into the student payroll system that printed the payroll warrants. The business office subsequently sent payroll checks to the departments where staff distributed the checks to students.

Audit Objectives and Methodology

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

- Did the university design internal controls to provide reasonable assurance that employees and students were compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records?

- Did the university comply with applicable finance-related legal provisions and related employee bargaining agreements?

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

Conclusions

St. Cloud State University designed and implemented internal controls that provided reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. For the items tested, the university complied with material finance-related legal provisions and bargaining unit agreements. However, as noted in Chapter 2, Finding 3, the university assigned certain users with incompatible clearances to update payroll and personnel systems.

Chapter 5. Supplies, Equipment, and Services Expenditures

Chapter Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately reported in the accounting records. Disbursements were made in compliance with applicable legal provisions and management's authorization. However, as noted in Finding 3 of Chapter 2, the university did not adequately restrict certain incompatible clearances to the accounting system. For the items tested, the university complied with applicable legal provisions.

St. Cloud State University administrative and academic departments initiated purchase requests directly in the MnSCU Purchase Control System, which encumbered available funds. A centralized purchasing department was responsible for procuring the goods and services, using MnSCU guidelines to solicit bids and select vendors. Two or more written quotations are obtained for purchases from $2,000 to $25,000, while purchases in excess of $25,000 require a sealed bid. Upon receipt of the goods or services, receiving evidence was sent to the Business Office where accounts payable clerks match it to the open purchase order and, ultimately, the invoice before processing payment.

Table 5-1 provides a breakdown of materials, equipment, and services for the past three fiscal years. SCSU purchased non-saleable operating and educational supplies and materials; consulting, computer production and maintenance, and contracted services; repairs and betterments to buildings and grounds; and equipment.

Table 5-1
St. Cloud State University
Significant Expenditure Areas
Fiscal Years 1996 - 1998

	1996	1997	1998
Supplies and Materials	$10,602,287	$11,183,611	$11,038,387
Purchased Services	3,372,333	3,404,652	7,727,886
Equipment	2,167,336	2,251,685	1,564,753
Repairs and Betterments	914,196	1,151,747	1,968,672
Total	$17,056,152	$17,991,695	$22,299,697

Note: The university also expended capital project monies for purchased services totaling $2,061,849 and repairs and betterments totaling $182,287 from July 1, 1995, to June 30, 1998.

Source: MnSCU accounting system for fiscal years 1996, 1997, and 1998 as of September 30, 1998.

St. Cloud State University

St. Cloud State University defines equipment as all machinery, vehicles, instruments, apparatuses, furniture, and other articles that meet all of the following requirements:

- a unit cost of $2,000 or more,
- a useful life of more than one year, and
- retains its identity for inventory purposes.

The university identifies and tags new equipment with the State of Minnesota identification sticker. New equipment is recorded and tracked on MnSCU's Fixed Asset system. MnSCU policy requires institutions to record fixed assets valued at over $2,000. Fixed assets valued between $500 and $1,999 are recorded at the university's discretion. In January 1999, SCSU was in the early stage of performing a physical inventory of its entire campus.

Audit Objectives and Methodology

The primary objectives of our review of supplies, equipment, services, and repair expenditures were as follows:

- Did St. Cloud State University design and implement internal controls to provide reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in the accounting system?

- Did the university comply with applicable legal provisions governing procurements and disbursements?

To meet these objectives, we interviewed university employees to gain an understanding of the internal controls over the procurement and disbursement processes for services, supplies, and equipment. We performed analytical reviews and tested transactions to determine if SCSU properly procured, authorized, disbursed, and recorded expenditures in the accounting system. Finally, we reviewed the university's process to record and track its fixed assets.

Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that expenditures were for goods and services actually received and transactions were accurately reported in the accounting records. We found that the university properly recorded and inventoried its fixed assets on the MnSCU Fixed Asset System. However, we noted in Chapter 2, Finding 3, that SCSU did not adequately restrict certain incompatible clearances to the accounting system. For the items tested, the university complied with applicable MnSCU procurement policies and management's authorization.

Chapter 6. Student Financial Aid

Chapter Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that it managed its financial aid programs in compliance with applicable federal and state program requirements. Computerized controls edit eligibility, package and award grants and loans to students, verify enrollment, and interface balances into accounts receivable and student records. For the items tested, the university complied with federal cash management and reporting requirements. However, we noted instances of non-compliance with certain federal regulations. These concerns appear related to difficulty implementing new financial aid and accounts receivable computer modules.

St. Cloud State University uses a computerized application to package and award financial aid. The financial aid module is one of the seventeen modules that make up MnSCU's Integrated Student Record System (ISRS). The financial aid module interfaces with other modules within the ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor, and also accepts and stores the institutional financial aid application and tax data from the student. A comparison of application data provided by the student to the Student Aid Report identifies any discrepancies, beyond accepted tolerances, in a process called 'verification.' The system enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the institution. Through interfaces into the accounts receivable modules, the system automatically modifies awards by updating for actual disbursement of aid to the students. Similarly, adjusted expenditures are interfaced into MnSCU accounting.

The system provides interactive packaging, awarding, and disbursing of federal and state financial aid. The system automatically verifies financial aid applicant compliance with specific requirements, determines the financial need, and applies awards to students' accounts in the accounts receivable module. The system verifies enrollment before disbursing the awards. The amount of the award is adjusted by the system if a student's enrollment drops subsequent to initial application of funds.

SCSU participates in a variety of federal financial aid programs. Table 6-1 summarizes program expenditures for fiscal year 1998.

Table 6-1
St. Cloud State University
Federal Financial Aid Expenditures
Fiscal Year 1998

CFDA Number	Program	Total Expenditures
84.032	Federal Family Education Loan (FFEL)	$19,034,341
84.063	Federal Pell Grant	$ 3,896,329
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$ 511,318
84.038	Federal Perkins Loan	$ 1,323,375
84.033	Federal Work-Study (FWS)	$ 1,016,567

Source: Fiscal Year 1998 Federal Operations Report and Application to Participate (FISAP).

The federal Pell Grant is considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the student's enrollment level. Pell grant funding is not limited to funds available at an institution. The maximum Pell grant for the 1998-1999 award year was $3,000 per student.

The Federal Family Education Loan (FFEL) program includes Subsidized and Unsubsidized Stafford Loans. The student borrower applies for the loan from a private lender. The school certifies the promissory note for qualifying students. The federal government guarantees the loan in case of default or cancellation. The federal government pays the interest to the private lender on Subsidized Stafford Loans while the student is in school and during certain deferment periods. For Unsubsidized Stafford Loans, the interest accrues from the date of origination and is the responsibility of the borrower. The maximum FFEL program amount for a given student is determined by the borrower's grade level and the amount previously borrowed.

The Federal Perkins Loan Program provides low-interest loans to needy students. The university acts as a lender, using both federal funds and a state match for capital contribution. The university performs loan collection duties including corresponding with students entering repayment status, receiving loan repayments, and pursuing delinquent loans. The university collected $1,394,000 in Perkins principal and interest repayments during the 1997-1998 academic school year.

The Federal Work-Study (FWS) Program and Federal Supplemental Educational Opportunity Grant (FSEOG) are additional sources of federal financial aid. The federal government share must not exceed 75 percent of the total expenditures in the FSEOG and FWS Programs. The state contributes the remaining 25 percent of the program funding.

St. Cloud State University also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The university packages Minnesota state grants along with federal financial aid. The Minnesota Higher Education Services Office determines eligibility for the state grant program and reimburses the University for eligible grant disbursements. During fiscal year 1998, the university disbursed state grants totaling $3.8 million to students.

St. Cloud State University

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did St. Cloud State University design and implement internal controls to provide reasonable assurance that student financial aid programs were managed in compliance with applicable laws and regulations, and accurately recorded in the accounting system?

- Did the university comply with federal regulations governing cash management and federal financial aid reporting?

To meet these objectives, we interviewed employees from the university financial aid and business offices, discussed processing logic and controls with the application developers, and tested controls over compliance for key finance-related compliance requirements. Our methodology was significantly influenced by the automated nature of the SCSU financial aid system. We extracted and analyzed the financial aid system tables and related data to gain assurances that computerized application controls functioned properly. In addition, we reviewed university records and tested controls to ensure compliance with regulations governing federal cash management and reporting federal expenditures.

Conclusions

St. Cloud State University designed and implemented internal controls to ensure compliance with financial aid program requirements and proper recording in the accounting system for fiscal years 1998 and 1999. For the items tested, the university complied with federal regulations over cash management and reporting. However, we noted four instances of non-compliance with certain federal financial aid regulations. These concerns appear to be caused by implementation of new financial aid and accounts receivable modules. Specifically, we noted that SCSU did not submit monthly Pell reports as required by the federal government, did not obtain signed Perkins loan promissory notes, and did not return non-disbursed FFEL funds to lenders within 10 days as stipulated by federal regulations. We also noted some local scholarship awards were miscoded as FSEOG.

5. St. Cloud State University did not submit Federal Pell Grant payment information to the federal government in a timely manner.

St. Cloud State University did not comply with reporting requirements for Federal Pell Grants. Federal regulations require schools to report Pell Grant payments at least once every 30 days. The reporting is essential because it facilitates cross-referencing of payments to students at a national level to avoid duplicate payments for the same time period. We found that the university only reported once during the first semester of the 1998-1999 school year.

The university uses the Recipient Data Exchange method for reporting Pell Grant payments to the U.S. Department of Education. When the university implemented the new MnSCU financial aid system during the fall semester, application programmers developed a program to gather electronic student Pell Grant payment data. The university used the program to prepare and submit their first federal Pell Grant report on October 16, 1998. However, the federal government rejected 112 students. The university subsequently found that the rejections were due to its reporting incorrect "Expected Family Contribution" amounts. SCSU did not transmit a second Pell Grant payment report until January 14, 1999, nearly two months late.

Recommendation

- *St. Cloud State University should report monthly Pell Grant payment data to the U.S. Department of Education as required by federal regulations.*

6. St. Cloud State University did not obtain signed promissory notes before disbursing Federal Perkins loans.

During the 1998 fall semester, SCSU did not collect promissory notes from Perkins Loan borrowers prior to disbursing loans or applying funds against tuition and fee charges in the student accounts receivable system. The promissory note is a legal document establishing the student's obligation to repay funds borrowed. Federal regulations require the promissory note be signed and received by the school before disbursing funds. We noted that the university had not received signed promissory notes from 71 borrowers whose loans totaled $47,925. As of December 2, 1998, SCSU had not notified 23 of these borrowers.

The university's disbursement of financial aid is automated. The module contains a key field indicating the promissory note status. When a signed promissory note is received and the status condition updated, the system will allow disbursement of the Perkins loan. However, during fall semester this key system edit was not operational. As a result, student borrowers were able to receive their Perkins loan without signing the promissory note. The university had to subsequently identify borrowers to request that signed promissory notes be returned. At the time of our audit, the university was still conducting their follow-up.

Recommendations

- *St. Cloud State University should ensure signed promissory notes are obtained for all students issued Perkins loans during the 1998 fall semester.*
- *The university should implement the system edit providing assurance that signed Perkins loan promissory notes are obtained from all students prior to disbursement of loan funds.*

7. St. Cloud State University does not have an efficient process to identify and return undisbursed Federal Family Educational Loan funds to lenders in a timely manner.

St. Cloud University does not ensure undisbursed FFEL funds are returned to lenders within ten days as required by federal regulations. Periodically, FFEL loan funds are received after a student has dropped classes. When this occurs, federal regulations require the loan funds be returned to the lender within ten days. We noted that the SCSU business office was unable to efficiently identify these students in order to return the money in a timely manner.

University students borrow from multiple lenders who provide electronic fund transfers (EFT) to the university's bank throughout the semester. Student enrollment is verified and funds are applied against tuition and fee costs using an automated process. Currently the business office manually compares a FFEL lender list to a daily report of students whose loans were applied against tuition. Due to the large volume of borrowers and multiple lenders, the business office is unable to efficiently identify the undisbursed loans held over ten days and return the money to the lenders in a timely manner. We think an automated feature is needed to assist in the identification of student loans held longer than ten days.

Recommendation

- *St. Cloud State University should identify and return undisbursed FFEL funds to lenders within timeframes required by federal regulations.*

8. St. Cloud State University miscoded certain scholarships as Federal Supplemental Educational Opportunity Grants.

St. Cloud State University miscoded five student scholarships, totaling $694, as Federal Supplemental Educational Opportunity Grants (FSEOG). The university initially packaged and awarded other grants, such as Pell or State Grants, to the students. The initial awards were reduced when the students did not qualify for the full grant award. Upon recalculation of the students' financial need, it was determined that the students qualified for additional need-based financial aid. The university subsequently awarded university scholarships to the five students. However, the SCSU financial aid office incorrectly identified and input these local scholarships as Federal Supplemental Educational Opportunity Grants.

The Federal government provides the university with an annual allocation of FSEOG program funds. Incorrect coding of scholarships as FSEOG grants generates unreliable data for federal reporting. SCSU may not use all of its FSEOG authorization or incorrectly show it overexpended its authorization. The miscoding may also cause the university to report inaccurate FSEOG expenditure information to the federal government.

Recommendation

- *St. Cloud State University should review its Federal Supplemental Educational Opportunity Grant (FSEOG) awards to identify and correct data entry errors. The university should develop controls to ensure that awards are correctly identified and recorded in its computer systems.*

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Chapter 7. Computer Store Operations

Chapter Conclusions

St. Cloud State University did not properly record computer store operations in MnSCU accounting. Financial activities were recorded in the wrong fund and deposits were coded to the wrong fiscal year. The computer store did not deposit collections in a timely manner. We also noted that the store did not maintain inventory control records or periodically measure operating results. The university designed and implemented controls to provide reasonable assurance that expenditures were properly authorized and supported by invoices and evidence the equipment was received.

St. Cloud State University operates a computer store through which academic departments, staff, and students can purchase computers at reduced prices. The computer store is part of the Academic Computing Center within the Learning Resources and Technology Services Department, which supports the computer operations for all academic departments. The computer store and computer technicians work together to provide computing services to the academic departments. Computer store staff and technicians work with the individual departments to determine the project specifications and oversee the project. The computer store staff bid out and procure the computers. The business office assists in preparation of purchase orders and payment of vendors.

The computer store annually collected and disbursed about $1.5 million to $2 million during fiscal years 1996 through 1998.

Audit Objectives and Methodology

The primary objectives of our review of computer store operations were as follows:

- Did the university design and implement internal controls to provide reasonable assurance that computer store revenue collections were safeguarded and accurately reported in the accounting records?

- Did the university design and implement internal controls to provide reasonable assurance that computer store expenditures were authorized, accurately reported in the accounting records, and in compliance with applicable legal provisions?

To meet these objectives, university employees were interviewed to gain an understanding of controls over computer store operations. Revenue transactions were analyzed for proper supporting invoices, timeliness of deposits, and proper recording in the accounting system. Expenditure transactions were tested to determine whether SCSU followed proper procurement practices, documented payments, and accurately recorded the transactions in the accounting records.

St. Cloud State University

Conclusions

St. Cloud State University did not properly record computer store operations in MnSCU accounting. Financial activities were recorded in the wrong fund type and deposits were made to an incorrect fiscal year. The computer store did not deposit collections in a timely manner. It was also noted that SCSU did not periodically measure computer store operating results and did not maintain inventory control records. The university designed and implemented controls to provide reasonable assurance that expenditures were authorized and supported by invoices and evidence of receipt of goods.

9. St. Cloud State University did not measure computer store financial results.

The university did not properly account for the computer store operations in the proper fund nor measure its financial activity. SCSU operates its computer store similar to a university bookstore. The university purchases computers and other equipment and resells them to its customers at marked up prices. However, rather then measuring profit or loss in an Enterprise or Internal Service Fund, it accounts for the computer store in an Agency Fund, which is a flow-through account. By running the activity through the Agency Fund, the university is not able to fully measure the store's profitability to assist in management decisions regarding pricing and cost allocation.

The accounting system does not reflect all assets and operating costs of the computer store. In addition to the costs reflected in Table 7-1, the computer store incurs additional payroll, and other costs such as rent and utilities, that are charged to the General Fund accounts. As further discussed in Finding 11, the computer store did not account for inventory or cost of goods sold. In order to accurately measure its financial operations, all assets and costs related to the computer store need to be identified.

In addition, the computer store did not always post sales receipts to the proper fiscal year. As discussed in Finding 12, the computer store did not deposit its receipts in a timely manner. The delay may have led to incorrect coding of deposits. We found that the university posted receipts on a cash rather than accrual basis. For example, remittances for June computer sales, deposited in July, were routinely posted as revenues of the subsequent fiscal year.

Recommendations

- *St. Cloud State University should properly account for computer store financial activities in an Enterprise or Internal Service Fund and deposit revenues in the appropriate fiscal year.*

- *The university should periodically measure the computer store operating results to assist management in making pricing decisions and cost allocations.*

10. St. Cloud State University did not establish controls over computer store inventory.

The SCSU computer store did not maintain inventory control records. The computer store ordered computers and other items for resale to its customers and maintained an inventory supply of computers, monitors, cables, discs, and other peripheral equipment. However, the computer store did not maintain any records to account for unsold items held in inventory. It was also noted that the computer store had placed some computer equipment in the computer center for demonstration purposes. Without inventory control records and periodic independent physical counts, risk of theft or errors increases. Also, without inventory records the university cannot accurately calculate computer store assets and cost of goods sold for financial reporting purposes.

Recommendation

- *The university computer store needs to develop and maintain an inventory system to effectively track the purchase and sale of computers and related merchandise. A periodic physical count should be performed and compared to inventory records to identify any possible shortages.*

11. St. Cloud State University did not deposit computer store receipts promptly.

The university computer store did not deposit sales in a timely manner. Our tests of deposits identified that the computer store did not make frequent deposits. In fiscal year 1998, the computer store generally made weekly deposits, about four or five deposits per month. Six of those deposits exceeded $100,000. Further, we noted that in one instance, the computer store held receipts totaling $31,000 for six weeks before depositing them. The delayed deposit of receipts increases the risk of loss or theft, and creates lost investment income on the undeposited sales.

It was also noted that university administrative and academic departments pay computer store purchases with actual warrants rather than an though internal transfer of funds. Transferring balances between accounts would improve efficiency and avoid the need for a bank deposit by the computer store.

Recommendation

- *The St. Cloud State University computer store should deposit its receipts promptly. The university should consider a more efficient method to transfer funds for payments from academic departments.*

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Chapter 8. Miscellaneous Revenues

Chapter Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that it collected all revenue earned. However it was noted that the university did not promptly deposit ticket sales for athletic events. In addition, SCSU had not executed a contract with its bookstore vendor since 1996. Finally, as noted in Chapter 2, Finding 1, the university did not properly post its bookstore commission to the proper fiscal year in the accounting system.

St. Cloud State University earns revenues from ticket sales for athletic events and commissions from bookstore, vending, and food service operations. Also, during fiscal year 1998, a university student organization (UPB Programs) sponsored a "Wallflowers" rock concert. The university deposits these funds in a local bank account. Management allocates the revenue for various programs such as scholarships to athletes and other students.

The university collected about $1.6 million of ticket revenue during the past three fiscal years. As shown in Table 8-1, the university hockey program generated 76 percent of ticket sales revenue. The university contracts with a private vendor for all of its hockey game ticket sales. The vendor accounts for all of the ticket sales and remits to the university its share of the proceeds along with supporting calculations. For all other events, SCSU coordinates the ticket sales. The university reconciled cash collected to tickets sold to ensure all revenue earned was collected.

Table 8-1
St. Cloud State University
Summary of Ticket Sales Revenue
Fiscal Years 1996-1998

	FY 96	FY 97	FY 98
Hockey	$319,324	$357,602	$534,227
Football	27,045	15,247	18,227
Basketball	41,540	48,038	27,652
Women's Athletics	7,055	4,954	25,503
Season Tickets	2,742	3,212	20,321
UPB Programs	14,036	8,989	86,253
Other	10,577	6,161	10,266
Total	$422,319	$444,202	$722,449

Source: MnSCU accounting system for fiscal years 1996, 1997, and 1998 as of September 30, 1998.

St. Cloud State University

St. Cloud State University contracts for various revenue generating services such as its bookstore, food service, and vending machine operations. Depending on the contract, the university generally provides space and other miscellaneous services to the vendors. The vendors return an agreed upon commission to the university based on total revenues received. The vendors provide various documentation such as cash register tapes to support the revenue amount and the university commission earned. Table 8-2 shows the commission revenue by category.

Table 8-2
St. Cloud State University
Summary of Commission Revenue
Fiscal Years 1996-1998

	FY 96	FY 97	FY 98
Bookstore (Note 1)	$261,910	$433,188	$387,259
Food Service	269,167	266,770	319,774
Vending Machines	148,378	147,486	147,525
Other	46,106	22,153	40,411
Total	$725,561	$869,597	$894,969

Note 1: The university incorrectly recorded fiscal year 1996 bookstore commissions of $67,993 in fiscal year 1997, fiscal year 1997 commissions of $30,511 in fiscal year 1998; and fiscal year 1998 commissions of $34,535 in fiscal year 1999. See Chapter 2, Finding 1 of this report.

Source: MnSCU Accounting System for Fiscal Years 1996, 1997, and 1998 as of September 30, 1998.

Audit Objective and Methodology

The primary objective of our review of miscellaneous revenue programs was as follows:

- Did the university design and implement internal controls to provide reasonable assurance that miscellaneous revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions?

To meet this objective, SCSU employees were interviewed to gain an understanding of controls over ticket sales and commission revenue. Transactions were tested to determine whether revenues collected complied with contracts and were properly recorded in the MnSCU accounting system. Supporting documentation provided by the third-party contractors was reviewed to determine if the university received all revenue earned.

Conclusions

St. Cloud State University designed and implemented internal controls to provide reasonable assurance that miscellaneous revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations. However, we noted that the university did not promptly deposit athletic ticket sales. We also noted that SCSU did not have a properly executed contract with its bookstore vendor. Finally, we noted in Finding 1 of Chapter 2 that the university did not properly code its bookstore receipts to proper fiscal years.

12. St. Cloud State University did not promptly deposit athletic event ticket revenues.

St. Cloud State University did not deposit athletic ticket sales in a timely manner. Tickets are sold for various athletic events, and reconciled to the money collected. The hockey ticket contractor reconciles the game's ticket revenue and remits to the university its share of the proceeds, along with a supporting cash report. The athletic department reviews the report and deposits the proceeds with the business office. Our test of three hockey-related deposits ranging from $4,200 to $20,200 showed deposit delays ranging from two to six business days. For example, one game held on November 21, 1997, collected ticket revenues of $4,242 that were not deposited until December 3, 1997. Tests of other events identified three deposits ranging from $600 to $6,200 that were one to seven days late. Delayed deposits increase the risk that receipts could be lost or stolen.

Recommendation

- *St. Cloud State University should deposit its athletic ticket sales receipts in a timely manner.*

13. St. Cloud State University did not have a current agreement with its bookstore contractor.

Rather than own and operate its own bookstore, the university outsourced its bookstore operations to a third party. The most recent contract with the current bookstore operator expired in June 1996. However, SCSU continued to operate under those contract terms. The prior contract provided that the university would provide space and equipment, and pay for certain costs such as utilities. The contractor, in turn, would provide the bookstore with labor and a ten percent sales commission. Since market conditions change, the university needs to periodically bid and renegotiate the bookstore contract terms. The sales commission, operating terms, and quality of service are important factors to reconsider.

Recommendation

- *St. Cloud State University should periodically bid and renegotiate a contract for bookstore operations. The university should ensure that it has a properly executed agreement in place prior to the contract period.*

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Status of Prior Audit Issues
As of January 15, 1999

Most Recent Audits

Legislative Audit Report 99-19, issued in March 1999, covered MnSCU activities material to the state's general purpose financial statements for the year ended June 30, 1998. The audit included coverage of federal financial aid programs administered by the State of Minnesota in fiscal year 1998. This report did not include any financial aid findings related specifically to SCSU. However, the report raised concern with the classification of the university computer store financial activities as mentioned in Finding 1 of this report

Other Audit History

Legislative Audit Report 98-16, issued in March 1998, covered material MnSCU financial activities and federal financial aid programs administered by the State of Minnesota in fiscal year 1997. This report did not include any findings related specifically to St. Cloud State University.

Legislative Audit Report 97-46, issued in August 1997, covered security over MnSCU's information systems. This report did not include any findings related specifically to St. Cloud State University.

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. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing 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. The process covers all colleges and universities within the MnSCU system.

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ST. CLOUD STATE
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VICE PRESIDENT FOR ADMINISTRATIVE AFFAIRS
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May 11, 1999

Mr. Brad White, Audit Manager
Office of the Legislative Auditor
1st Floor South
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Brad:

Thank you for the audit provided to us on April 30, 1999. We appreciate the revised recommendations and findings based on our exit interviews here at St. Cloud State and with our MnSCU colleagues on April 27th.

The attached pages constitute our formal response. I understand that this response will be a part of the final audit report along with comments that may be added by our MnSCU colleagues.

We are very pleased that the report finds so many instances of adequate and appropriate internal controls and business practices. We work very hard at good fiscal management, and we are pleased to have your audit report as external verification. We are especially pleased at the small number and immateriality of the four findings in the section on financial aid. As your report notes, in addition to the fine record of financial aid administration at St. Cloud State University, the systems development for a new MnSCU Financial Aid module implemented at St. Cloud has progressed extremely well. We are proud of the systems development effort our colleagues managed in addition to their normal workload.

We concur with your findings in the main and have said so in our response. Many of these findings are the result of two issues; transition to MnSCU systems development functions, and extraordinary staff turnover in the University Business Office. I suspect that we will continue to experience systems transition issues for some time, and we will continue to make every effort to avoid problems during this time.

There are areas in which we disagree with the findings. Specifically, we disagree with portions of findings 1 and 4. We detail our views in the attached response. In addition, we point out that the findings in recommendation 9, 10, and 11 are the result of an effort we had undertaken here to bring better controls to a local enterprise operation. In other words, this is as much a campus finding as an audit finding.

Thank you once again for a professional and helpful audit.

Sincerely yours,

Gene

Eugene A. Gilchrist

Enc.
cc: President Grube
Vice Chancellor King
Mr. Asmussen
Mr. Burke
Mr. Loncorich

Audit of St. Cloud State University July 1, 1995 through June 30, 1998
Response

Finding 1
St. Cloud State University (SCSU) did not properly account for certain financial activities.

We concur with the majority of the finding. The Computer Store activity was identified for review in 1998 and we have been working with the Computer Store staff to correct the accounting and other concerns raised in Chapter 7 of the audit. We found that the bookstore did report a minor amount of revenue in the wrong fiscal year. We also agree with the payroll accounting portion of the finding. The payroll clearing account lag was known and corrected.

In the case of the bookstore, vending service, food service, health service, athletics, student activity fees and course fees, the problem resulted from the use of revenue object codes between the former Minnesota State Colleges and University (MnSCU) accounting system and the new accounting system. The revenue is in the correct fund but it is miscoded by object code. This problem was corrected in the system. This is also the case with the refund citing. The refund is made from the correct fund but the object code is incorrect. This problem does not exist for newly entered data.

We believe that the Highway Safety Center is appropriately coded as grant or contract income, as opposed to tuition, but agree that these specific instances should be contract income as opposed to grant income.

Finding 2
St. Cloud State University did not verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in the state treasury and local bank accounts.

We agree that the reconciliations are important and that the completed work was tardy. This condition resulted from turnover of staff and extraordinary workload associated with implementation of MnSCU Accounts Receivable system. We identified the process for attention and we will be current with reconciliations on June 30, 1999 and thereafter.

Finding 3
St. Cloud State University did not adequately restrict certain employee computer security access privileges.

We agree with the finding. At the time of implementation of certain MnSCU modules security accesses were not grouped in the same way we do business. This was due in part to "back stopping" the Chief Business Officer position which had three incumbents in one year. The groups have since been modified to correct each situation.

Finding 4
St. Cloud State University needs to clarify the operating relationship with its affiliated foundation.

While we agree with the intent of the finding, we disagree with certain recommendations. We recognize that the contract was in process and late, and we have rectified that situation. We also agree that specific relationships about revenue require careful definition. While we had intended to provide an adequate definition, we are happy to review that definition in light of this recommendation.

Concerning the managerial role of the Executive Director, we believe that the current definition is within MnSCU policy, appropriate, and provides careful control to the university and the state. Nevertheless, we will pursue clarification of that role with MnSCU.

Finding 5
St. Cloud State University did not submit Federal Pell Grant payment information to the federal government in a timely manner.

Although we note that the lack of submitting the Pell payment report every 30 days did not have an adverse impact on the university or the Pell eligible students, we concur with the recommendation. It is understood that the Department of Education requests that schools submit Pell payment information at least once every 30 days. SCSU will modify its reporting procedures to conform to the U.S. Department of Education requirements. For the 1999-2000 year, major modifications to this reporting process will be required. Modifications are now being developed and will be in place for the beginning of the new fiscal year.

Finding 6
St. Cloud State University did not obtain signed promissory notes before disbursing Federal Perkins Loans.

We concur. As noted in the audit report, the aid applied/funds applied component of the financial aid module contains a key field indicating the status of the Perkins Loan promissory note. A Perkins Loan check is not prepared until the status condition is updated which indicates that a signed promissory note is on file. During transition to MnSCU Financial Aid, the system edit for the promissary note was not functional. The system edit is completely operational and functional at present. All students who have received Perkins Loan funds now have a signed promissory note on file.

Finding 7
St. Cloud State University does not have an efficient process to identify and return undisbursed Federal Family Educational Loan funds (FFEL) to lenders in a timely manner.

We concur. Procedures will be modified to identify and return undisbursed FFEL loan funds to the appropriate agencies in a more timely manner. This audit finding was primarily due to activities associated with the difficulty of implementing the new financial aid and accounts receivable modules. Our priority was to provide loan funds to those students who were enrolled at the university.

Finding 8
St. Cloud State University miscoded certain scholarships as Federal Supplemental Educational Opportunity Grants.

We concur. All federal Supplemental Educational Opportunity Grant (SEOG) awards were reviewed for potential data entry errors prior to the auditor bringing this finding to our attention. We inadvertently coded five scholarship awards as SEOG awards (total funds involved was $694). Better controls are now in place to insure that SEOG awards are correctly identified.

Findings 9, 10, and 11
Computer Store Operations.

We agree that the fiscal controls and a reporting structure for our Computer Store need better definition. We identified these same issues in August 1998. We are working on an agreement with Academic Computer Services to implement and complete these changes by the start of the next fiscal year.

Finding 12
St. Cloud State University did not properly deposit athletic event ticket revenues.

We agree not all deposits were made on a timely basis, and we will work with our contractor, bank, and the athletic department to ensure a more timely deposit.

Finding 13
St. Cloud State University did not have a current agreement with its bookstore.

We concur and will have the contract current within thirty days.