Minnesota State University, Mankato

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

August 1999

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-45

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SUMMARY

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Minnesota State University, Mankato

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

Public Release Date: August 26, 1999 No.99-45

Background

Minnesota State University, Mankato was established in 1866. The university offers undergraduate and graduate students more than 150 programs of study. The largest programs include elementary education, computer science, nursing, law enforcement, and accounting. Dr. Richard Rush became the president of Minnesota State University, Mankato in 1992. The university changed its name from Mankato State University to Minnesota State University, Mankato on September 18, 1998.

Our audit scope covered the period from July 1, 1995, through June 30, 1998. We audited general financial management; tuition, fees, and room and board; employee and student payroll; operating expenditures; computer store operations; and other revenue. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 1999.

Conclusions

We found that Minnesota State University, Mankato properly recorded its financial activities on the MnSCU and MAPS accounting systems with a few exceptions, and that the university operated within its financial resources. We found that the university did not record some transactions correctly on the accounting system. We determined that the university had good internal controls overall. However, the university did not limit computer access to MnSCU accounting and payroll/personnel systems for university and system office employees. We also found that the university needs to improve controls over computer store operations. In addition, the university needs to clarify its relationship with the Minnesota State University, Mankato Foundation.

For student financial aid, we concluded that Minnesota State University, Mankato designed and implemented internal controls to provide reasonable assurance that it managed state and federal student financial aid programs in compliance with specific program requirements in fiscal year 1999. The university complied with federal student financial aid requirements over cash management and federal reporting for the items tested.

In its written response to the audit report, the university stated that although they did not agree with all the findings and recommendations, they will apply them in an effort to enhance their business, accounting, and financial affairs. We believe the university’s plans will adequately address the issues in the audit report.

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Richard Rush, President
Minnesota State University, Mankato

We have audited selected areas of Minnesota State University, Mankato for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included the following areas: general financial management; tuition, fees, and room and board; employee and student payroll; operating expenditures; computer store operations; and other revenue. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 1999.

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 Minnesota State University, Mankato 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 and the management of Minnesota State University, Mankato. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 26, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 21, 1999

Report Signed On: August 23, 1999

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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
Jim Riebe, CPA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Anna Lamin	Auditor
Bryan Swartz	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Minnesota State University, Mankato and the MnSCU system office at the exit conference held on July 26, 1999:

Minnesota State University, Mankato.	
Dr. Richard Rush	President
H. Dean Trauger	Vice President for Finance and Administration
MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Marilyn Hansmann	Regional Internal Audit Coordinator

Chapter 1. Introduction

Minnesota State University, Mankato was established in 1866. The university offers undergraduate and graduate students more than 150 programs of study. The largest programs include elementary education, computer science, nursing, law enforcement, and accounting. During fiscal year 1998, Minnesota State University, Mankato had an enrollment of 11,681. Dr. Richard Rush became the president of Minnesota State University, Mankato in 1992. On September 18, 1998, the university changed its name from Mankato State University to Minnesota State University, Mankato.

Minnesota State University, Mankato is affiliated with the Minnesota State University, Mankato Foundation. The foundation promotes, accepts, and manages private gifts to the university. The foundation functions primarily to provide student scholarships, capital acquisitions for the university, and enrichment opportunities for the faculty.

Minnesota State University, Mankato 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, Enterprise Funds, and Capital Projects Fund for the fiscal year ended June 30, 1998.

Table 1-1 (a)
Sources and Uses of Funds
Fiscal Year Ended June 30, 1998

	General Fund	Special Revenue Funds	Enterprise Funds	Capital Projects Fund
July 1, 1997, Fund Balance	$ 5,767,022	$ 718,423	$10,333,333	$ 0
Sources:				
State Appropriation	$43,071,769	$ 0	$ 1,475,627	$3,474,010
Tuition and fees	29,889,280	2,231,794	2,209,959	0
Rent/Sales	855,037	1,414,917	12,275,023	0
Investment Income	0	58,395	298,556	0
Student Financial Aid	0	0	318,169	0
Federal Grants	0	6,379,119	41,211	0
State Grants	485,071	58,196	13,737	0
Private Grants	25,816	105,152	246,666	0
Non-mandatory Transfers In	95,475	940,569	303,388	0
Other	3,036,505	60,550	465,652	0
Subtotal Sources	$77,458,953	$11,248,692	$17,647,988	$3,474,010 0
Total Sources	$83,225,975	$11,967,115	$27,981,321	$3,474,010
Uses:				
Salary and Fringe	$58,858,741	$2,861,958	$3,983,840	$0
Purchased Services	6,430,951	1,399,867	6,284,742	1,887,627
Utilities	1,771,037	0	744,777	0
Supplies	4,089,364	734,605	1,563,987	29,665
Supplies for Resale	0	0	1,836,395	0
Equipment	2,039,545	51,641	26,221	0
Debt Service	660,746	0	2,035,578	0
Buildings – Lease	54,384	0	0	507,101
Financial Aid	644,114	5,231,157	227,882	0
Indirect Costs	96,624	223,283	10,035	0
Non-mandatory Transfers Out	134,473	256,455	900,184	0
Other	556,587	162,136	297,586	0
Total Uses	$75,336,566	$10,921,102	$17,911,227	$2,424,393
June 30, 1998, Fund Balance	$ 7,889,409	$ 1,046,013	$10,070,094	$1,049,617

(a) Table 1-1 does not include all funds, such as the Agency Funds and Endowment Funds.

Note: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activity not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The university's June 30, 1998, compensated absence liability was estimated to be about $7.6 million. Also, the unrecorded liability for 1998 contract increases paid to faculty and administrators for contracts settled during fiscal year 1999 are estimated at $1.2 million. The fiscal year 1998 General Fund unrestricted reserve was $3,205,388.

Source: Based on the summary data prepared by the university from the MnSCU accounting system as of April 12, 1999.

Chapter 2. Financial Management

Chapter Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that it operated within its available resources. The university had an effective process to monitor its revenue and expenditure budgets. The university properly accounted for and controlled its local bank accounts and completed bank reconciliations timely. With the following exceptions, the university properly recorded all of its state treasury and local account activity on the MnSCU and MAPS accounting systems. The university did not properly record some expenditure transactions that could impact financial reporting. We also noted that the university did not adequately restrict computer access for some employees. In addition, we concluded that the university needs to clarify its relationship with the Mankato State University Foundation.

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

On July 1, 1995, 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) emerged. MnSCU required 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.

The State of Minnesota also implemented a new computerized accounting system (MAPS) and a new personnel/payroll system (SEMA4) that began operations on July 1, 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses used the MnSCU accounting system to initiate transactions that involved appropriated funds. Through a system interface, the MnSCU accounting system recorded summary transactions on MAPS. MAPS then generated state treasury warrants for state-appropriated expenses.

Minnesota State University, Mankato is affiliated with the Minnesota State University, Mankato Foundation, a non-profit organization. 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 its audited financial statements, the Mankato State University Foundation had total revenues of $11.7 million and total expenses of $2.3 million in fiscal year 1998. As of June 30, 1998, the foundation had an ending fund balance of approximately $21 million.

Minnesota State University, Mankato

Audit Objectives and Methodology

Our review of Minnesota State University, Mankato's overall financial management focused on the following questions:

- Did the university's internal controls provide reasonable assurance that it operated within available financial resources?
- Did the university's internal controls 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's authorization?
- Did the university establish an appropriate relationship with its foundation?

To answer these questions, we interviewed university staff to gain an understanding of the MnSCU accounting system as it pertained to each of the individual program areas included in our audit scope. We gained an understanding of management controls in place over the local bank accounts. We reviewed MnSCU transactions posted to the accounting records to determine if the university properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we discussed the university's budgetary process with university administrators. We also reviewed computer security privileges to determine whether the university had adequately restricted access to its computerized business systems. Finally, we reviewed the university's contract with the Mankato State University Foundation and copies of the foundation's financial statements.

Conclusions

Minnesota State University, Mankato operated within its available resources. The university properly recorded all of its state treasury and local bank account activity on the MnSCU and MAPS accounting systems, except that the university did not properly record some financial transactions, as discussed in Finding 1.

The university properly accounted for and controlled its local bank accounts and completed bank reconciliations timely. However, we found that the university did not adequately restrict computer access for some employees, as discussed in Finding 2. In addition, we determined that the university needs to clarify its operating relationship with its foundation. We discuss this issue in Finding 3.

1. Minnesota State University, Mankato did not properly record some financial transactions.

Minnesota State University, Mankato improperly recorded some expenditure transactions in the MnSCU accounting system, potentially impacting financial statement presentation. The issues involved the use of occurrence dates for computer store expenditures and the recording of a capital improvement.

Minnesota State University, Mankato

The university did not use the correct occurrence dates for computer store expenditures. We found that eight of ten computer store expenditures tested had incorrect occurrence dates. Incorrect occurrence dates may cause the financial statement for accrued liabilities at year-end to be misstated. Computer store staff send copies of the receiving logs with the dates the goods were received to the business office. However, business office staff did not always record the date the items were received as the occurrence date in the accounting system. Some of the occurrence dates recorded were the invoice date or the date that the business office received the invoice. We also found times when the business office paid several invoices at one time, recording only one occurrence date for several purchases. Computer store expenditures for fiscal year 1998 totaled $1,757,516.

In addition, the university incorrectly recorded a capital improvement as a repair. The university made a payment of $369,532 for a chiller plant expansion and recorded it on the accounting system as a repair. The improvement should have been capitalized and recorded as a betterment to buildings. The error occurred because of similar object code descriptions in MnSCU accounting for repairs and forbetterments.

Recommendations

- *The university should ensure that the occurrence date on the accounting system for year end computer store expenditures is the date that the goods were received or services were provided.*

- *The university should record capital improvements as betterments to buildings.*

2. Minnesota State University, Mankato did not adequately restrict certain employee computer system access privileges.

Minnesota State University, Mankato did not adequately monitor or control access to its computerized business systems. Those systems included the MnSCU accounting system, the personnel/payroll system, and the Unisys system.

Within the MnSCU accounting system, four purchasing department staff and one business office staff had inappropriate access to encumber funds, generate purchase orders, and enter payments. This created incompatible privileges, which increased the likelihood that an improper transaction could occur and go undetected. University management feels that the budgetary controls are adequate to detect any errors or irregularities. We believe, however, that with the high volume of expenditure transactions that it would be more effective to address the incompatible duties by restricting access to the computer system rather than rely on detecting unauthorized transactions that could occur. Alternatively, the university could generate a transaction report from the accounting system that would list the transactions processed by these employees. Management could periodically review the report to ensure the propriety of the activity. In addition, one employee transferred from the business office to the human resources department about two years ago, yet still had access rights to encumber funds and process disbursements. Also, a student assistant no longer working in the payroll department still had access to update the university's personnel and payroll information through SCUPPS.

We also found that five MnSCU system office employees and a student assistant no longer working in the payroll department had access to update Minnesota State University, Mankato personnel and payroll information through SCUPPS. These employees could add personnel, change assignments, issue lump-sum payments, and adjust salary information for university personnel. None of the MnSCU system office employees performed any of these functions for the university; the university's human resource office handled all such transactions.

During our review of Unisys access, we also noted that employees who regularly handled cash and checks, resulting from parking fines, also had access to reduce or eliminate charges on the system. This presented a control weakness because these individuals could potentially receive cash or a check payment for a charge, delete the charge from the Unisys system, and misappropriate the payment. The business office did not appear to have any mitigating controls to detect such activity. However, MnSCU has recently developed one information system to replace the Unisys system. Minnesota State University, Mankato has begun to use the new system to record information for fiscal year 2000 and is discontinuing its use of the Unisys system.

Recommendation

- *Minnesota State University, Mankato should improve security access controls by:*

  -- *either restricting access to MnSCU accounting based upon job responsibilities to ensure an adequate separation of duties that would prevent unauthorized transactions from occurring, or developing and reviewing management reports to ensure the propriety of the expenditure transactions;*

  -- *removing SCUPPS computer access by MnSCU system office staff; and*

  -- *periodically reviewing system user security reports and modifying any inappropriate system access privileges.*

3. Minnesota State University, Mankato needs to clarify the operating relationship with its foundation.

Minnesota State University, Mankato has an unclear relationship with the Minnesota State Univeristy, Mankato Foundation. The foundation's independence is blurred by the university's oversight of foundation operations. Our review of the foundation disclosed that the university deposits foundation receipts into the university's bank account. We also found that university employees have the authority to approve foundation purchases and sign checks from the foundation bank account. The university has a contract with the foundation that specifies the rights and responsibilities of both organizations. The university employs a vice president of university advancement who is the university's authorized agent to oversee the administrative support for the foundation. The foundation had total revenues of $11.7 million during fiscal year 1998.

Minnesota State University, Mankato

Minnesota State University, Mankato deposits foundation receipts directly into the university's bank account. The university then transfers foundation receipts into the foundation's bank account. As a separate legal entity, the 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 believes it is more efficient to process one combined deposit for the university and the foundation. Personnel also told us that occasionally both the foundation and the university are named as payees per the check. We believe, however, that checks made payable to the foundation should be deposited in the foundation's bank account to maintain the legal distinction between the two entities. The contract between the university and the foundation also specifies that separate bank accounts will be maintained.

University employees approve purchases and sign all checks under $2,500 written from the foundation's bank account based on an operating budget that is authorized by the foundation board. Foundation policy states that the dean of the college or the vice president/director of the unit receiving foundation funds has the responsibility to administer the account and disburse the funds. Two signatures are required for any checks written from the foundation's bank account. Authorized signatures include the following university employees: the vice president of finance and administration, the comptroller, the accounting director, and the foundation accountant. The foundation treasurer must approve all checks over $2,500. The foundation receives a quarterly budget report from the foundation accountant. However, the report does not provide information on individual transactions. We believe the expenditure of funds is a managerial responsibility that should rest with the foundation. The contract with the foundation authorizes university employees to perform administrative functions, but not to perform managerial responsibilities.

Recommendations

- *The Minnesota State University, Mankato Foundation receipts should be deposited into the foundation's bank account.*

- *University personnel should discontinue authorizing foundation purchases and signing foundation checks, or should provide sufficiently detailed expenditure reports to the foundation so that the foundation can ensure that the university is complying with the board's budget authorization.*

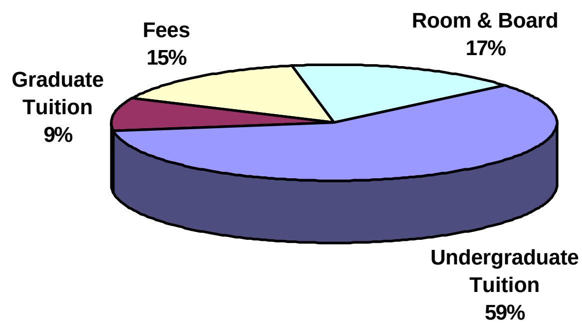
Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that tuition, fees, and room and board revenue collections were safeguarded and accurately reported in the accounting records. For the items tested, the university complied with finance-related legal provisions.

Minnesota State University, Mankato offers undergraduate and graduate programs to resident and nonresident students. The tuition and fee amount for a resident undergraduate student was $53.75 per quarter credit in the 1997-1998 school year. The resident graduate tuition rate was $82.15 per quarter credit in the 1997-1998 school year. Figure 3-1 shows the breakdown between tuition, fees, and room and board revenue for the audit period.

Figure 3-1
Breakdown Between Tuition, Fees, and Room and Board Revenue
Fiscal Years 1996 - 1998



Source: MnSCU accounting system.

At the time of the MnSCU merger in 1995, the state universities used their own information system, Unisys, for recording and maintaining student data, assessing tuition, and monitoring unpaid balances. This system supported various activities such as registration, financial aid, billing, and accounts receivable. Each day the business office reconciled the amount of revenue collected to a daily report generated by Unisys. Financial activity was recorded on MnSCU's accounting system through a nightly interface between Unisys and the MnSCU system. The business office reviewed the interface daily to ensure that all transactions had been recorded properly. The business office also performed a daily reconciliation of its bank deposits to the Unisys report.

Minnesota State University, Mankato

Audit Objectives and Methodology

Our review of Minnesota State University, Mankato's tuition, fees, and room and board revenue focused on answering the following questions:

- Did Minnesota State University, Mankato's internal controls provide reasonable assurance that revenue collections were safeguarded and accurately reported in the accounting records?

- Did Minnesota State University, Mankato's internal controls provide reasonable assurance that revenue collections were in compliance with applicable legal provisions?

To address this objective, we interviewed university employees to gain an understanding of the controls over billing, collecting, depositing, and recording tuition, fees, and room and board revenues. We examined the conversion codes used to record Unisys financial activity on the MnSCU accounting system. We analyzed the amounts of tuition and fees collected to ensure that they appeared reasonable. Also, we reviewed the access to the Unisys system granted to university employees. Finally, we reviewed how the university monitored and pursued collection of its outstanding account receivables.

Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that revenue collections were safeguarded and accurately reported in the accounting records. For the revenue transactions tested, the university complied with applicable legal provisions.

Chapter 4. Employee and Student Payroll

Chapter Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that employees and students were accurately paid in accordance with management's authorization. Employee payroll expenditures were accurately reported in the accounting records, except that as mentioned in Chapter 2, Finding 1, the university did not record the correct occurrence dates for student payroll transactions. Also, as discussed in Chapter 2, Finding 2, the university did not adequately restrict access by system office employees to the personnel/payroll system.

The university complied with material finance-related legal provisions and bargaining agreements for the transactions tested.

Payroll represents the largest operating cost for Minnesota State University, Mankato. In fiscal year 1998, the university had payroll expenditures of approximately $67 million.

Minnesota State University, Mankato employed approximately 1,400 full and part-time faculty and administrators as of May 1999. The university's employees are covered under the following compensation plans:

- The Inter Faculty Organization (IFO)
- The Minnesota State University Association of Administrative and Service Faculty (MSUAASF)
- The Middle Management Association (MMA)
- The Minnesota Association of Professional Employees (MAPE)
- The American Federation of State, County, and Municipal Employees (ASCFME)
- The Minnesota Nurses Association (MNA)
- The Personnel Plan for MnSCU Administrators

During fiscal year 1996, the college used the state's personnel and payroll system (PPS) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS records different employee classification assignments and faculty appointments and stores pay rate information. PPS calculated the amounts paid employees and tracked leave accruals for classified and unclassified employees and excluded administrators. In June 1996, the college began processing payroll information in the state's new SEMA4 payroll system while continuing to use SCUPPS.

Minnesota State University, Mankato's human resources office enters all new employee data and makes changes to employee records directly in SCUPPS. It also gathers timesheets from classified and part-time employees and enters the payroll information into SEMA4. Faculty payroll does not require separate entries into SEMA4. Instead, the biweekly salary transactions interfaced from SCUPPS to SEMA4 for producing payroll warrants and ultimately posting payroll expenditures into MnSCU accounting.

The university also used the SCUPPS leave module to track leave accrual data for faculty and administrators. In addition, the university maintained its own separate database, which also tracked leave accruals for its employees.

The university also employs students to perform various jobs throughout the campus. During the audit scope, Minnesota State University, Mankato paid over $9 million to students from various funding sources. The university participated in both the federal and state work-study programs. Minnesota State University, Mankato also employed student workers who were paid from institutional funds. The university business office entered appointment and tax information into the Unisys student payroll system. Students completed biweekly timesheets and submitted them to their supervisors for approval. The business office entered timesheet hours into the student payroll system that generated the payroll warrants.

Audit Objectives and Methodology

The primary objectives of our review were as follows:

- 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 university payroll expenditures comply with applicable finance-related legal provisions and related employee bargaining agreements?

To address these objectives, we interviewed university staff to obtain a general understanding of the internal control structure over the payroll and personnel process, analyzed payroll trend data, reviewed source documents to determine proper authorizations, and recalculated payroll amounts to ensure proper payment. We tested a sample of payroll transactions to determine whether the university complied with applicable legal provisions and related employee bargaining agreements. We also reviewed the security clearances to the SEMA4 and SCUPPS systems for Minnesota State University, Mankato data.

Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that employees and students were paid appropriately in accordance with management's authorization. Employee payroll expenditures were accurately reported in the accounting records, except that as mentioned in Chapter 2, Finding 1, the university did not record the correct occurrence dates for student payroll transactions. The university complied with material finance-related legal provisions and bargaining agreements for the transactions tested. As discussed in Finding 2 in Chapter 2, we found that the university did not adequately limit computer access relating to payroll information.

Chapter 5. Operating Expenditures

Chapter Conclusions

Minnesota State University, Mankato designed internal controls to provide reasonable assurance that operating expenditures were accurately reported in the accounting records. For the items tested, the university complied with material finance-related legal provisions. However, the university did not properly record a betterment (see Finding 1, in Chapter 2) and did not complete its 1997 fixed asset inventory in a timely manner.

Minnesota State University, Mankato administrative and academic departments initiated purchase requests directly in the MnSCU Purchase Control System, which encumbered funds. The Minnesota State University, Mankato purchasing department was responsible for procuring goods and services, using MnSCU guidelines to solicit bids and select vendors. The purchasing department obtained informal quotes for items less than $10,000, while purchases in excess of $25,000 required a sealed bid. Upon receipt of goods, the business office received shipping documents. The accounts payable clerks matched the documents to the purchase order and the invoice before processing the payment on the MnSCU accounting system. The business office also received invoices for services provided and processed those payments on the MnSCU accounting system. Table 5-1 provides a breakdown of material expenditure categories in fiscal year 1998.

Table 5-1
Minnesota State University, Mankato
Material Operating Expenditures
Fiscal Year 1998

	1998
Supplies and Materials	$9,374,498
Equipment	2,029,841
Utilities	2,523,258
Contracted Food Services	2,983,116
Purchased Services	1,246,199
Repairs and Alterations to Buildings	1,174,628
Total	$19,331,540

Source: Based on summarization of downloaded expenditure files from the MnSCU accounting system for fiscal year 1998 as of June 30, 1998. Figures may differ from Table 1-1 due to classifications.

Audit Objectives and Methodology

The primary objectives of our review was to answer the following questions:

- Did the university design internal controls to provide reasonable assurance that it accurately reported operating expenditures in the accounting records and adequately safeguarded fixed assets from theft or loss?

- Did the university comply with applicable legal provisions?

To meet these objectives, we interviewed university staff to gain an understanding of the internal control structure over the purchasing and the payment process for expenditures. We reviewed and analyzed disbursement data. We also tested a sample of expenditures to determine whether the university had adequate supporting documentation and authorization, paid the correct amount, properly recorded the transactions in MnSCU's accounting system, and complied with MnSCU purchasing policies. Finally, we reviewed the university's process to record and track fixed assets.

Conclusions

Minnesota State University, Mankato designed internal controls to provide reasonable assurance that operating expenditures were accurately reported in the accounting records. For the items tested, the university complied with applicable legal provisions and management's authorization. However, the university did not properly record a betterment (See Finding 1 in Chapter 2) and did not complete its 1997 inventory in a timely manner as discussed in Finding 4.

4. Minnesota State University, Mankato did not complete a fixed asset inventory in a timely manner.

Minnesota State University, Mankato did not complete a physical inventory of fixed assets in a timely manner. As of May 14, 1999, the university had not located the missing equipment or adjusted its accounting records for the results of an inventory that began for the summer of 1997 and where the majority of the work was done in fiscal year 1998That inventory noted 239 equipment inventory items with an original cost of $752,000 that were reported missing by Inventory Stores. The university continued to work on locating the missing items in 1999. The university adjusted the inventory records for $584,000 in missing inventory in July 1999. Minnesota State University, Mankato tracks incoming equipment and maintains a current equipment listing. Inventory Stores completes a physical equipment inventory once every two years.

The university should resolve missing equipment and adjust accounting records in a timely manner. Prompt follow up would result in a more efficient and effective process to increase the likelihood of locating the missing assets. Without an adjustment, equipment inventory is overstated on the financial statements by the amount of missing equipment because fixed assets are valued at historical cost for financial reporting.

Recommendation

- *The university should complete its periodic inventory and adjust accounting records in a timely manner.*

Chapter 6. Financial Aid

Chapter Conclusions

Minnesota State University, Mankato designed and implemented internal controls to provide reasonable assurance that it managed state and federal student financial aid programs in compliance with specific program requirements. For the items tested, the university complied with federal student financial aid requirements over cash management and federal reporting.

Minnesota State University, Mankato participated in several student federal financial aid programs administered by the U.S. Department of Education and the state grant program administered by the Minnesota Higher Education Services Office. Table 6-1 summarizes federal financial aid program expenditures for fiscal year 1998.

Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 1998

CFDA Number	Program	Total Expenditures
84.032	Federal Family Education Loan (FFEL)	$17,126,226
84.063	Federal Pell Grant	4,004,227
84.033	Federal Work-Study (FWS)	543,184
84.007	Federal Supplemental Education Opportunity Grant (SEOG)	416,590
84.038	Federal Perkins Loan	989,114

Source: June 30, 1998, FISAP and Minnesota State University, Mankato accounting records.

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 number of credits a student is enrolled for. All eligible students receive Pell grants since the funding is not limited to the available funds at the university. The maximum Pell grant for the 1997-98 academic school 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. Approximately 99 percent of the loan proceeds are electronically deposited to the university's financial aid account. 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 borrower's grade level and the amount previously borrowed determine the maximum loan amount.

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 correspondence with students entering repayment status, receiving loan repayments, and pursuing delinquent loans. The university collected $1,136,296 in Perkins principal and interest repayments during the 1997-98 academic school year.

The Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant are additional sources of federal financial aid. The federal government’s share must not exceed 75 percent of the total expenditures in the Federal Supplemental Educational Opportunity Grant Program and the Federal Work-Study Program. The state contributes 25 percent of the funding for the two programs.

Minnesota State University, Mankato also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office (HESO). HESO determines eligibility for the state grant program and advances funds to the university for disbursement. The university packages and disburses the state grants along with federal financial aid. During the 1997-98 academic school year, the university disbursed $3,345,514 in state grant funds to eligible students.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to the federal financial aid programs:

- Did the university design and implement internal controls to provide reasonable assurance that it properly recorded student financial aid transactions in the accounting system and administered student financial aid in accordance with applicable federal regulations?
- Did the university comply with applicable legal requirements for cash management and federal reporting of student financial aid activity?

To meet these objectives, we evaluated and tested controls over compliance for determining student eligibility and packaging, awarding, and disbursing state and federal financial aid funds. We also reviewed and tested compliance with federal regulations for managing federal cash and reporting federal expenditures.

Conclusions

Minnesota State University, Mankato designed and implemented internal controls to provide reasonable assurance that it managed state and federal student financial aid programs in compliance with specific program requirements. The university recorded its financial aid activity on MnSCU timely and accurately. For the items tested, the university complied with federal student financial aid requirements over cash management and federal reporting.

Chapter 7. Computer Store Operations

Chapter Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that computer store expenses were properly authorized and supported by invoices and evidence that equipment was received. However, the university's internal controls did not provide reasonable assurance that computer store revenue and disbursement transactions were accurately recorded in the accounting system. As discussed in Chapter 2, Finding 1, the university did not record the correct occurrence dates for some computer store expenditures. In addition, the university did not design adequate controls over the safeguarding of receipts and the recording of revenue transactions. Finally, the university did not establish adequate controls over computer store inventory.

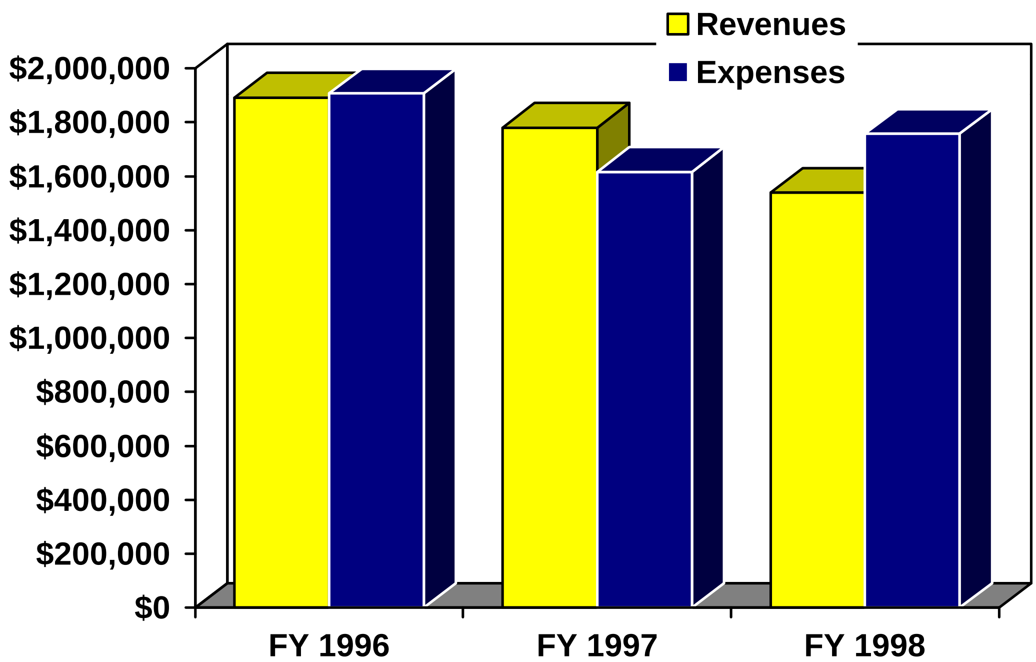
Minnesota State University, Mankato operates a computer store through which academic departments, staff, and students can purchase computers, peripherals, equipment, and supplies. The computer store is part of the Academic Affairs Department. At the beginning of each year, the computer store manager sets up open purchase orders in the MnSCU purchasing system. The business office receives invoices and processes payments to vendors. Store receipts are recorded on the computer store software package, Point of Sale Inventory System (POSIM). The computer store only accepts checks and credit cards. Students paying with cash must go to the business office and bring a paid receipt back to the store. At the end of the day, the store manager brings checks and credit card slips to the cashiers in the business office for processing. Computer store operations are accounted for in the Enterprise Fund.

The university hired a private CPA firm to perform procedures on selected accounting records and transactions of the computer store as of June 30, 1997. The procedures related to the effectiveness of the internal controls over financial reporting for computer store operations. The report recommended certain changes in procedures and enhancements to inventory controls.

The university prepares an income statement that includes operating expenses such as payroll, rent, supplies, and other indirect costs and accounts for cost of goods sold.

As of March 31, 1999, the computer store had a deficit of $23,842. The university's business school reviewed computer store operations and made recommendations on how to make the store financially viable. Figure 7-1 shows the revenues and expenses during our audit period.

Figure 7-1
Computer Store Revenues and Expenses
Fiscal Years 1996 - 1998



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

Audit Objectives and Methodology

Our review of computer store operations focused on the following questions:

- Did the university's internal controls provide reasonable assurance that computer store revenue and expense transactions were accurately recorded in the accounting system?
- Did the university's internal controls provide reasonable assurance that computer store revenue and expense transactions were in compliance with applicable legal provisions?

To answer these questions, we interviewed university staff to gain an understanding of the controls in place over computer store revenues and expenses. We tested samples of transactions to determine if the university had adequate supporting documentation and had accurately recorded the transactions on the MnSCU accounting system.

Conclusions

Minnesota State University, Mankato designed and implemented controls to provide reasonable assurance that expenses were properly authorized and supported by invoices and evidence that equipment was received. However, the university did not design and implement internal controls to provide reasonable assurance that computer store disbursement transactions were accurately recorded in the accounting system. As discussed in Chapter 2, Finding 1, the university did not record the correct occurrence dates for some computer store expenditures. In addition, the university did not design adequate controls over revenue transactions, as discussed in Finding 5. Finally, the university did not establish adequate controls over computer store inventory, as discussed in Finding 6.

5. Controls over computer store receipts need improvement.

No one reconciled receipts recorded on the computer store accounting system (POSIM) to receipts processed by the cashiers to ensure that all monies received were rung through the cash register, posted to MnSCU accounting, and deposited. At the end of the day, the computer store manager generated a report from POSIM which lists all transactions that were processed. The store manager took all checks and credit card slips to the cashiers at the end of the day. The cashiers prepared the bank deposit and posted the transactions on the Unisys system. The Unisys system generated a detailed cashiers report that listed all the transactions posted to the system. No one reconciled the POSIM report to the Unisys report to ensure that all receipts were deposited and correctly posted. The lack of a reconciliation increased the risk of loss or theft. Someone independent of the computer store should reconcile the computer store system to the cashiers report.

In addition, computer store employees did not restrictively endorse checks "for deposit only" immediately upon receipt. At the end of the day, the store manager endorsed the checks and took them to the cashiers in the business office for processing.

Recommendations

- *Someone independent should reconcile computer store receipts to the accounting system.*
- *Computer store employees should restrictively endorse checks immediately upon receipt.*

6. Minnesota State University, Mankato did not establish adequate controls over computer store inventory.

No one independent of the computer store operations compared the computer store physical inventory results with the inventory records on the accounting system. Students working in the store complete a physical inventory by scanning items on the shelves. The store manager generated an on-hand inventory report from the system and compared the results. No one in the Academic Affairs Department or the business office reviewed the results of the inventory. Without an independent review, there is a risk that theft or errors could occur and not be detected.

We also noted that the computer store inventory recorded on the system was not complete. The store manager found some items stored in boxes that were not recorded on the system. All items on hand should be recorded on the inventory system. Total inventory on hand at March 31, 1999, was $83,797.

Recommendations

- *Someone independent of computer store operations should review physical inventory results.*

- *The university should record all inventory on the inventory system.*

Chapter 8. Other Revenue

Chapter Conclusions

Minnesota State University, Mankato's internal controls provided reasonable assurance that private grant revenue was accurately reported in the accounting records. For the items tested, the university complied with finance-related legal provisions.

Other revenue transactions relating to the Project for Automated Library Systems (PALS) and the bookstore complied with contracts and were properly recorded in the MnSCU accounting system.

Minnesota State University, Mankato receives additional revenue from various sources such as private grants and endowments from various organizations, the university's project for automated library systems, and commissions from bookstore operations.

Minnesota State University, Mankato receives revenue from private grants and endowments from various organizations. The university received some of the larger grants from U. S. West, the Bloomington School District, IBM, and Americorps. Faculty receive approval to apply for grants from the Grants and Sponsored Programs Office. The business office receives copies of the grant award. The cashiers in the business office recorded the revenue on the Unisys system, which interfaced nightly with the MnSCU accounting system. The cashiers also prepared the deposits. The grant accountant in the business office reviewed the detailed cashier reports and MnSCU accounting reports to ensure revenue was processed and recorded correctly. The program accountant billed monthly for reimbursement grants. The university received approximately $3.3 million in private grant revenue during fiscal year 1998.

Minnesota State University, Mankato receives revenue from its MnSCU/PALS (Project for Automated Library Systems) project. The project is a statewide library automation and telecommunications network. It serves all MnSCU institutions, several private colleges, and some state agencies. The university developed the software and became the provider for automating library services. The university houses a Unisys mainframe computer and all operational sites are connected to it through a statewide telecommunications network. The project employs 20 staff working out of MnSCU offices in the Memorial Library at Mankato State. The employees provide technical training and support. Minnesota State University, Mankato serves as the fiscal agent for PALS. Services are provided on a contract basis to private colleges and libraries and state agency libraries. MnSCU system office authorizes all contracts. Each participant pays annual dues that are determined by a formula that distributes costs in proportion to use. Participants are billed twice a year, on January 1 and July 1, based on the prior year's transactions. During fiscal year 1998, PALS revenue totaled approximately $2.5 million.

Minnesota State University, Mankato

The university also contracted for bookstore operations. The university provided space and other miscellaneous services to the vendor. The vendor provided documentation to support the revenue amount and the commission the university earned. Total revenue for bookstore commissions during fiscal year 1998 was $333,971.

Audit Objectives and Methodology

The primary objectives in our review of other revenues were as follows:

- Did the university design internal controls to provide reasonable assurance that private grant revenue was safeguarded and accurately reported in the accounting records?
- Did the university administer private grant revenue in compliance with applicable legal provisions?
- Were other revenue transactions in compliance with contracts and properly recorded in the MnSCU accounting system?

To answer these questions, we interviewed university staff to gain an understanding of controls over private grant revenue. We also tested private grant revenue transactions. We reviewed contracts and transactions to determine whether other revenue transactions were properly recorded in the MnSCU accounting system and in compliance with applicable finance-related legal provisions and management's authorization.

Conclusions

Minnesota State University, Mankato designed internal controls to provide reasonable assurance that private grant revenue was accurately reported in the accounting records. For the items tested, the university complied with finance-related legal provisions. Other revenue transactions we tested complied with contracts and were properly recorded in the MnSCU accounting system.

Status of Prior Audit Issues
As of May 29, 1998

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 also included coverage of federal financial aid programs administered by the State of Minnesota in fiscal year 1998. The follow up on issues related to Minnesota State University, Mankato will be conducted by MnSCU's Office of Internal Auditing.

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 included a finding that four students received federal financial aid overpayments. Certain overpayments have been recovered and other recoveries are in progress.

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 Minnesota State University, Mankato.

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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MINNESOTA STATE UNIVERSITY
M A N K A T O

20 August 1999

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Office Building
100 Constitution Avenue
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed is a summary of our responses to the audit findings and recommendations that resulted from the audit of Minnesota State University, Mankato for the period July 1, 1995 through June 30, 1998.

After the comprehensive audit work that was done by your staff, it is reassuring to know that our business practices and internal controls are providing assurance that we are complying with applicable laws, regulations, contracts and grants. Although we do not agree with all the findings and recommendations, we will apply them upon your advice in our effort to enhance our business, accounting and financial affairs.

We appreciate the good work and professionalism of your staff in completing this audit.

Sincerely,

Richard R. Rush

Richard R. Rush
President

Enclosure

OFFICE OF THE PRESIDENT
309 WIGLEY ADMINISTRATION CENTER · MANKATO, MN 56001
PHONE 507-389-1111 · FAX 507-389-6200

Minnesota State University, Mankato's Responses to the Audit Findings and Recommendations Contained in the Minnesota Office of the Legislative Auditor's Audit Report For the Period July 1, 1995 Through June 30, 1998.

1. Minnesota State University, Mankato did not properly record some financial transactions.

- Recommendation: The university should ensure that the occurrence date on the accounting system for year-end computer store expenditures is the date the goods were received or services were provided.

  Response: The Computer Store has a large volume of invoices to be processed for payments throughout the year. In an effort to save data entry time and reduce the risk of data entry errors, invoices were grouped together and paid as a single transaction, using an occurrence date within the time frame of the invoices being processed. This practice was only done with Computer Store invoices due to the high volume in that area. This practice was not utilized at fiscal year-end when occurrence dates are an important element of determining year-end payables. During FY2000, individual entries are being made for each invoice.

- Recommendation: The university should record capital improvements as betterments to buildings.

  Response: The referenced contract for the purchase of a chiller for the power plant was recorded in the HEAPR funds (Higher Education Asset Preservation and Replacement). The object code definitions for 1240 and 5210 are as follows:

  1240: Repairs and Alterations to Buildings
  5210: Betterments to Buildings

  With some MnSCU object codes having similar or limited descriptions, it provides opportunity for misclassification. We recommend that more detailed explanations and clarification of object codes and their appropriate use be developed by MnSCU.

2. Minnesota State University, Mankato did not adequately restrict certain employee computer system access privileges.

- Recommendation: Minnesota State University, Mankato should improve security access controls by:

  — either restricting access to MnSCU accounting based upon job responsibilities to ensure an adequate separation of duties that would prevent unauthorized transactions from occurring, or developing and reviewing management reports to ensure the propriety of the expenditure transactions; and

  — removing SCUPPS computer access by MnSCU system office staff; and

  — periodically reviewing system user security reports and modifying any inappropriate system access privileges.

  Response: We believe the best approach to resolving this issue is to develop reports that can be reviewed to ensure the propriety of the expenditure transactions. We will work with MnSCU to develop the appropriate reports. Also, we will ask MnSCU to adjust SCUPPS computer access to "view only" privileges. Each unit will review their user security reports to assure all privileges are appropriate.

3. **Minnesota State University, Mankato needs to clarify the operating relationship with its foundation.**

- *Recommendation*:: The Minnesota State University, Mankato Foundation receipts should be deposited into the foundation's bank account.

  Response: Although our procedures for depositing foundation receipts were more efficient and no problems have ever been encountered we will proceed with implementing this recommendation.

- *Recommendation:* University personnel should discontinue authorizing foundation purchases and signing foundation checks, or should provide sufficiently detailed expenditure reports to the foundation so that the foundation can ensure that the university is complying with the board's budget authorization.

  Response: There are benefits to the university and to the Foundation to have university personnel involved in the authorizing of foundation purchases and signing foundation checks, thus we will be discussing with the Foundation the types of reports suggested for ensuring the university is complying with the board's budget authorization.

4. **Minnesota State University, Mankato did not complete a fixed asset inventory in a timely manner.**

- *Recommendation:* The university should complete its periodic inventory and adjust accounting records in a timely manner.

  Response: We believe our inventory procedures are excellent and the staff takes seriously the importance of fixed asset inventory records. To do a complete inventory count for a large campus such as Mankato, it takes a number of months to do the work and then a number of months to follow up. The inventory was completed in August, 1998, which is FY99. After it was completed, a report was generated in November, 1998 noting 239 items with a value of $752,303 were missing. The follow up during the next six months resulted in the value of missing items being reduced to $583,554 with an undepreciated value of $21,424 still missing. Those items ere written off in July, 1999 against the FY99 accounting records. The few extra months of follow up resulted in approximately $170,000 less having to be written off.

5. **Controls over computer store receipts need improvement.**

- *Recommendation*:: Someone independent should reconcile computer store receipts to the accounting system.

- *Recommendation:* Computer store employees should restrictively endorse checks immediately upon receipt.

  Response: We concur with the recommendations and have made organizational changes to assist us in accomplishing them.

6. **Minnesota State University, Mankato did not establish adequate controls over computer store inventory.**

- *Recommendation*: Someone independent of computer store operations should review physical inventory results.

- *Recommendation:* The university should record all inventory on the inventory system.

  Response: We concur with the recommendations and have made organizational changes to assist us in accomplishing them.