OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Audit Report

Metropolitan State University

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

JULY 13, 2000 **00-29**

Financial Audit Division

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Report Summary

Financial Audit Report

Metropolitan State University
Period from July 1, 1996, through December 31, 1999

Metropolitan State University operated within available financial resources. However, the university had several key control weaknesses that raised concerns about whether assets were safeguarded and financial activities were properly recorded.

Key Findings:

- The university did not verify the accuracy of financial activity recorded in either its local bank account or in the state treasury, or maintain sufficient collateral for its local bank account. (Findings 1 and 2, pages 7 and 8)
- The university had not promptly billed or requested reimbursement funds from certain organizations, and did not correctly record all financial activity on its accounting system. (Findings 3 and 4, page 9)
- The university did not adequately control computer access to the accounting system. (Finding 5, page 12)
- The university did not reconcile SCUPPS to SEMA4 or enter faculty assignments into the SCUPPS system promptly. (Findings 6 and 7, pages 16 and 17)
- The university did not adequately safeguard its supplies and equipment purchases or take a complete physical inventory of fixed assets. (Findings 8 and 9, pages 20 and 21)
- The university did not record federal PELL funds promptly upon receipt and improperly certified a Subsidized Stafford Loan. (Findings 10 and 11, page 25)
- The university's computer store was not promptly paying vendors or collecting accounts receivable. It also inappropriately received vendor rebates and did not prepare annual statements. (Finding 12, page 28)

Metropolitan State University is a part of the Minnesota State Colleges and University (MnSCU) system. This audit report represents the conclusions of our audit of the university's tuition and fees, payroll, operating expenditures, supplies and equipment, and the computer store. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 2000. The university's response is included in the report.

Metropolitan State University

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Charlie Gill	Auditor
Theresa Hahn	Auditor
Eric Roggeman	Auditor
Kathy Fisher	Intern

Exit Conference

The following staff from Metropolitan State University and the MnSCU system officeparticipated in the exit conference held on June 22, 2000:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Beth Hammer Buse	Deputy Director of Internal Auditing
Paul Portz	Audit Coordinator, Internal Auditing
Margaret Jenniges	Director of Financial Reporting
Deb Winter	Director of Campus Accounting
Chris Halling	System Director for Student Financial Aid
Andrew Boss	MnSCU Board of Trustees

Metropolitan State University:

Wilson Bradshaw	President
Dennis Nielsen	Interim President
Cathleen Brannen	Vice President, Administration and Finance
Jill Bemis	Finance Director
Jim Cleaveland	Financial Aid Director
Janice Anderson	Human Resources Director
Lucia Miklas	Reconciliation Accountant

OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James 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. Wilson Bradshaw, President
Metropolitan State University

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

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These 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 Metropolitan State University complied with the provisions of laws, regulations, contracts, and grants 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 Metropolitan 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 July 13, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 25, 2000

Report Signed On: July 10, 2000

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

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Chapter 1. Introduction

Metropolitan State University was founded in 1971 and is one of 36 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system, which began operations on July 1, 1995. Metropolitan State University has campuses in both St. Paul and Minneapolis. Dr. Dennis Nielsen began his duties as the interim president of Metropolitan State University on August 24, 1998. Dr. Susan Cole resigned as president effective August 31, 1998. On May 17, 2000, the MnSCU Board of Trustees named Dr. Wilson Bradshaw president of Metropolitan State University. He will begin his duties on July 1, 2000.

Metropolitan State University funds its operations from three major sources: state appropriations allocated by the system office, tuition receipts, and federal revenue. State appropriations and tuition and fees support General Fund activities. The Special Revenue Fund includes federal and state student financial aid. The Enterprise Fund includes the computer sales store. Table 1-1 shows the financial activity for Metropolitan State University for fiscal year 1999.

Metropolitan State University is accredited by the North Central Association of Colleges and Schools Commission on Institutions of Higher Education. The university offers Bachelor of Arts and Bachelor of Science degrees with a number of majors. It also offers a Master of Business Administration, a Master of Management and Administration, and a Master of Science in Nursing. In addition to campuses in St. Paul and Minneapolis, the university offers programs at locations around the seven county metropolitan area, including educational sites in Bloomington, Brooklyn Center, and at the Midway Center in St. Paul's Energy Park. During fiscal year 1999, the university served 8,523 students representing a full-time enrollment of 3,283 students.

Metropolitan State University is affiliated with the Metropolitan State University Foundation, a separate non-profit organization. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts, which are audited annually by a CPA firm. The university maintains a formal agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants that benefit the educational mission of the university.

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

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenues:				
State Appropriation	$18,314,955	$ 0	$ 0	$ 0
Tuition and Fees	8,386,009	254,685	0	(2,278)
Sales and Services (3)	142,102	3,264	407,667	0
Federal Grants	0	1,520,201	0	0
State Grants	593,618	(6,138)	0	4,047
Private Grants	20,500	368,555	0	166,081
Other Income	106,204	13,099	1,640	0
Total Revenues	$27,563,388	$2,153,666	$ 409,307	$167,850
Expenditures/Expenses:				
Payroll	$18,616,687	$ 433,222	$ 0	$ 0
Purchased Services	4,033,209	91,168	110,719	0
Utilities	452,350	3,980	0	0
Contracts/Consultants	385,721	6,473	0	0
Supplies and Capital Expenditures (5)	1,346,134	57,054	66,609	0
Financial Aid	416,421	1,285,971	2,833	251,160
Debt Service	831,164	0	0	0
Other Expenses	249,045	35,718	19,233	12,930
Total Expenses	$26,330,731	$1,913,586	$ 199,394	$264,090
Transfers				
Transfers In	$ 0	$ 50,058	$ 0	$102,994
Transfers Out	31,330	25,090	20,388	80,000
Net Transfers	$ (31,330)	$ 24,968	$ (20,388)	$ 22,994
Change in Fund Balance	1,201,327	265,049	189,525	(73,246)
Beginning Balance	6,542,823	491,859	195,797	45,041
Ending Fund Balance (2)	$ 7,744,150	$ 756,908	$ 385,322	$(28,205)

Note 1: This statement is prepared on the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from generally accepted accounting principles. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not reflect assets such as accounts receivable and prepaid assets, or long-term liabilities such as debt and compensated absences. Compensated absences as of June 30, 1999, were estimated at $1.5 million.

Note 2: Fund balance for the General Fund includes a university budgetary reserve of $677,591, as calculated by the university. The reserve is part of the university's general operating budget for which no use is currently planned. The remaining fund balance was restricted for various commitments, including technology and equipment, contract obligations, prior year encumbrances, and other obligations.

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

Sales and Services – Gross	$1,042,285
Cost of Goods Sold	634,618
Sales and Services – Net	$ 407,667

Note 4: The negative Trust Fund balance of $28,205 resulted from the university awarding scholarships totaling $84,385 and the university not billing the local student organization account and other organizations in a timely manner, as discussed in Chapter 2, Finding 3.

Note 5: The university adjusted prior year supply costs for capital expenditures as discussed in Chapter 2, Finding 4.

Source: Prepared by MnSCU accounting staff as adjusted by OLA.

Chapter 2. Financial Management

Chapter Conclusions

Metropolitan State University operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization. However, because of the weaknesses identified below, the university's internal controls did not provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems:

- ***The university did not verify the accuracy of its financial activities through the reconciliation process;***
- ***The university did not correctly record all of its financial activities to the accounting records; and,***
- ***The university did not bill certain organizations in a timely manner.***

In addition, for the items tested, the university did not maintain sufficient collateral to cover its cash in the local bank account.

Metropolitan State University uses the MnSCU accounting system to record its financial activities and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. Metropolitan State University administered certain funds, including financial aid, agency accounts, and enterprise activities, in one local checking account. This account also served as the state depository for the transfer of funds into the state treasury.

Audit Objectives and Methodology

Our review of Metropolitan State University's financial management focused on the following questions:

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

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

- Did the university's internal controls provide reasonable assurance that it had an appropriate operating relationship with related organizations?

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

To answer these questions, we interviewed university personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. We also gained an understanding of management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank account activities. We analyzed and reviewed transactions posted to the accounting records to determine if the university properly recorded its state treasury and local bank account activities. We reviewed local bank account activity to determine compliance with material finance-related legal provisions for collateral. In addition, we reviewed the agreement between the university and its foundation, the foundation's annual audited financial statements, and the university's process for billing the foundation for scholarships.

Budgetary Controls

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

Once Metropolitan State University determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The university establishes individual cost centers for each department or office to monitor its budget status. University management also monitors projected versus actual student enrollment to ensure that sufficient tuition revenues will be received to support the spending budget. The university built a reserve balance into its budget formula. As of June 30, 1999, Metropolitan State University had about a 2.7 percent budget reserve, or approximately $678,000. MnSCU policy 5.4 specifies that colleges and universities reach a five to seven percent reserve level by fiscal year 2001.

Financial Management

At the time of our audit, the day to day management of Metropolitan State University's financial resources was the responsibility of an interim president, a vice president for administration and finance, and a finance director. These are key positions within Metropolitan State University's organizational structure that have a direct impact on the university's financial operations. This includes providing the necessary direction and training to business office staff to ensure that the university's financial resources are appropriately safeguarded and that financial transactions are conducted in the best interests of the university.

During the audit period, the financial leadership of Metropolitan State University substantially changed. A new interim president began his duties on August 24, 1998. A new director of finance began on March 22, 1999, replacing the former business manager and eliminating that position. Also a new vice president for administration and finance began her duties on August 1, 1999, filling the position that was open since April 28, 1999. In addition, there were numerous turnovers within the business office staff during this time. Currently, 2.5 positions within the business office remain vacant. Management of the university is responsible for establishing and maintaining an internal control structure that will remain in place even as changes in key personnel occur.

Although some of our prior audit findings remain as a part of this report, the university has either resolved or partially resolved a majority of them, despite the changes in personnel mentioned above. However, this report introduces nine new findings over the next six chapters.

Conclusions

Metropolitan State University operated within available resources and generally in compliance with applicable legal provisions and management's authorization. In addition, Metropolitan State University maintained an appropriate operating relationship with its foundation. However, the university's internal controls did not provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. As discussed in Finding 1, the university did not verify the accuracy of its financial activities through the reconciliation process. We also noted that the university did not correctly record all of its financial activities as explained in Finding 4 and Finding 10 in Chapter 6. In addition, as discussed in Finding 3, the university did not bill certain organizations in a timely manner. In addition, for the items tested, the university did not maintain sufficient collateral to cover its cash in the bank, as explained in Finding 2.

1. PRIOR FINDING NOT RESOLVED: Metropolitan State University did not verify the accuracy of financial activity recorded in either its local bank account or in the state treasury.

Metropolitan State University has not successfully completed the reconciliations necessary to verify cash balances and the proper recording of financial activity in MnSCU accounting. These reconciliations are major control mechanisms to determine the proper recording of receipts and expenditures. The reconciliation process may identify differences between the related two systems. Resolving these differences helps to ensure that the revenues and expenditures are accurately recorded. Currently the reconciliation's that are not completed are as follows:

- The university has never successfully reconciled financial activity recorded on MnSCU accounting to MAPS. This reconciliation needs to be completed to ensure that the financial activity is properly recorded on the two systems. There were various unexplained differences in accounts and balances for the General Fund Appropriation and Private Grants accounts. The General Fund Appropriation had a difference of $34,691 as of November 1999. The Private Grants Account had a carryover difference of $51,604 as of December 1999. In addition, the university had not reconciled its payroll clearing account.

- The university has not completed the reconciliation of cash on MnSCU accounting to cash in the local bank account. On the December 1999 reconciliation there were $95,300 in unexplained transactions. The net cash difference was $58,815. There were also unresolved amounts dating back to 1998. This reconciliation is necessary to ensure that cash transactions recorded on the accounting system are accurate. The reconciliation process should identify and resolve differences on a monthly basis.

The responsibility for reconciliations has been assigned to various staff throughout the audit period. During this time period, staff responsible for this function had either terminated employment or transferred to new positions. As a result, there had not been a consistent approach to the reconciliation process. However, in June 1999, the business office assigned the reconciliation process to one individual. Since that time, progress has been made in completing the reconciliations. Continued progress in completing the reconciliations is necessary to determine the accurate recording of the university's financial activities.

Recommendation

- *Metropolitan State University needs to reconcile state treasury accounts recorded on MnSCU accounting with MAPS on a monthly basis. The university also needs to reconcile its local bank accounts on a monthly basis to MnSCU accounting and subsequently to MAPS. Accounting records should be adjusted to show accurate balances.*

2. PRIOR FINDING NOT RESOLVED: Metropolitan State University did not maintain sufficient collateral for its local bank account.

Metropolitan State University did not maintain collateral to secure its bank account cash balance. We reviewed the bank balances during the months of August, September, and December 1999. We noted during these months that the bank balances ranged from $400,000 to $2,600,000. We also noted that in January 2000 the bank balance ran as high as $3.5 million. The university had not required the bank to pledge collateral to secure these balances.

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

Recommendation

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

3. Metropolitan State University had not billed or requested reimbursement of funds from certain organizations in a timely manner.

The university has not requested funds or reimbursement from certain organizations when due. Prompt reimbursement decreases the need to use state revenues to fund other university programs. We noted the following instances in which the university could have been more diligent in its billings or reimbursement requests to other organizations:

- As of March 2000, the university had a negative cash balance of $285,000 in the state financial aid account. Although scholarships had been awarded and recorded on the accounting system, the university failed to submit an accurate and timely Decentralized Delivery report to the Minnesota Higher Education Services Office (HESO) for fiscal year 1999. As a result, Metropolitan State University will not receive its fiscal year 2000 funding until HESO reviews and certifies the fiscal year 1999 report.

- The university did not request reimbursement from its foundation for scholarships awarded during fiscal years 1998 and 1999 until April 1999. The foundation reimbursed the university $84,722 in May 1999. Although the university received reimbursement of $29,602 from the foundation for scholarships awarded during the fiscal year 2000 fall semester within three months, the use of university funds to support foundation activities should be minimized to the extent possible.

- The university did not transfer money from the Local Student Account to the Trust Fund to pay for scholarships awarded during fiscal year 1999. The university awarded $84,385 in scholarships out of the Trust Fund in fiscal year 1999. Bookstore commissions deposited into the Local Student Account and contributions from other organizations were to fund the scholarships. These funds should have been promptly transferred to the Trust Fund.

The university should have procedures in place to ensure that all funding sources are timely billed.

Recommendation

- *The university should bill or seek reimbursement from all funding sources on a timely basis.*

4. The university did not correctly record all financial activity on its accounting system.

Metropolitan State University had not completed or correctly recorded all financial activity in its accounting system. Some examples of financial activities that were not properly recorded as of December 31, 1999, are shown in Table 2-1.

Table 2-1
Improper or Untimely Recording of Financial Transactions

Account	Amount	Recording Issue
Local Student Organization	$5,800,000	Metropolitan State University incorrectly recorded Stafford Loans as expenditures rather than reductions of accounts payable for fiscal years 1999 and 2000.
Capital Land Acquisition	-$47,580	This account had a negative balance because the school did not record a fiscal year 2000 appropriation.
Payroll Clearing	$161,000	This account had balances remaining from fiscal years 1996 to 1999 that were not resolved.
Imprest Cash	-$20,000	Reimbursements were not recorded in this account for fiscal year 2000.
Student Financial Aid	$584,000	Reimbursement received on September 13, 1999, but not recorded on MnSCU until October 19, 1999. See Chapter 6, Finding 10.
Supplies and Equipment	$700,000	The college incorrectly transferred equipment costs to supplies. This transfer resulted in a negative capital expenditure amounts on the MnSCU accounting system.

Source: Fiscal years 1997 through 2000 MnSCU accounting records.

The proper recording of financial transactions is necessary to ensure that MnSCU accounting records accurately represent the university's financial activities.

Recommendation

- *The university should resolve all of the incorrect amounts on their accounting system and establish a process to ensure that transactions are accurately recorded in a timely manner.*

Chapter 3. Tuition Revenue

Chapter Conclusions

Metropolitan State University's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, the university did not adequately control access to its accounting system. For the items tested, Metropolitan State University complied with significant finance-related legal provisions for tuition and fees.

Metropolitan State University currently offers both undergraduate and graduate programs. For the 1998-1999 school year, the tuition rate for undergraduate courses was $89.63 per semester credit plus miscellaneous fees. The tuition for graduate courses was $132.98 per semester credit plus fees. Metropolitan State University charged nonresident students $192.28 and $207.88 per semester credit for undergraduate and graduate courses, respectively. Tuition and fee revenues collected for the three fiscal years ended June 30, 1999, totaled $23,987,545.

Audit Objective and Methodology

Our review of Metropolitan State University's tuition and fee revenues focused on the following questions:

- Did the university's internal controls provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

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

To answer these questions, we interviewed university employees to gain an understanding of the controls over tuition and fees. We reviewed student registration and billing records and MnSCU accounting records to determine if the university charged students appropriate tuition and fee rates, collected earned revenue, and properly recorded revenue transactions to MnSCU accounting. We also reviewed bank deposit documentation to determine if the university properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions.

Accounts Receivable

In fiscal year 1997, Metropolitan State University used the Data General information system for recording tuition receipts. Subsequently, MnSCU developed a new information system to replace the former system. The new system, the Integrated Student Record System (ISRS), contains various student data and registration modules that share common data through various interfaces.

The ISRS system accumulates all student charges from various sources. When students pay their bills at the cashier's office, the cashier enters the collections into the system. 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 has available reports which summarize the day's collections and postings. Metropolitan State University started using the new accounts receivable module during the fall term of 1998.

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

Conclusions

Metropolitan State University's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as explained in Finding 5, the university did not adequately control computer access to the accounting system. For the items tested, Metropolitan State University complied, in all material respects, with the significant finance-related legal provisions concerning tuition and fees.

5. PRIOR FINDING PARTIALLY RESOLVED: Metropolitan State University did not adequately control the access of certain business office staff to its accounting system.

Metropolitan State University did not adequately administer and control access to the MnSCU accounting system. The university has primary authority and responsibility to ensure employee access is necessary based upon job responsibilities. Without the proper security controls, the university is at risk for possible unauthorized and/or fraudulent transactions to occur.

In our prior audit report, we discussed the issue of adequate controls over tuition receipts. The cashiers had the ability to input transactions into the accounts receivable system and override tuition and fees. The method of inputting the transactions has changed with the new ISRS system, but there are still concerns about computer system access. Our review of the administration of computer system security disclosed the following weaknesses:

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

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

- Staff in the cashier office sometimes share log-on identification numbers. This does not allow the university to monitor individuals responsible for completing transactions. Cashier office staff should only use the log-on identification number the university assigns to them.

Recommendations

- *Metropolitan State University should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data. The university should only grant users access to the screens needed for their jobs. It should work with the system office to allow "view only" screens when needed.*

- *Metropolitan State University should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*

- *The university should ensure that employees do not share system passwords.*

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Chapter 4. Payroll

Chapter Conclusions

Metropolitan State University's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the university complied with material finance-related legal provisions. However, the university did not reconcile SCUPPS to SEMA4 on a regular basis and did not resolve balances in the related default cost center. Also, the university did not promptly enter new faculty assignments into the payroll system.

Metropolitan State University employed 642 employees as of December 31, 1999. Faculty consisted of 77 tenured full-time faculty, seven fixed-term full-time faculty, four part-time faculty, and 361 adjunct part-time staff. Payroll expenditures during the audit period were approximately $62 million and represent approximately 60 percent of the university's expenditures. The following organizations represent the university's employees:

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

Metropolitan State University used the State Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. SEMA4 contained pay rate information and calculated employee biweekly payments.

The university had separate human resources and payroll departments. The human resources department updated SCUPPS appointments and salaries. The payroll office collected employee timesheets for update of SEMA4 mass time entry and was responsible for ensuring proper recording of payroll expenditures in MnSCU accounting.

Metropolitan State University

Audit Objectives and Methodology

Our review of Metropolitan State University's payroll expenditures focused on the following questions:

- Did the university's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the university comply with material finance-related legal provisions governing payroll?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel process. We made inquiries of university staff to gain an understanding of the personnel and payroll systems used by the university. We observed the procedures used to process and reconcile payroll transactions. We reviewed the computer system security clearances for payroll and human resources personnel. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to various bargaining agreement provisions. Finally, we reviewed and tested employee leave balances maintained by the university.

Conclusion

Metropolitan State University's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as discussed in Finding 6, the university did not reconcile SCUPPS to SEMA4 on a regular basis and did not resolve balances in the related default cost center. Also, the university did not promptly enter new assignments into the payroll system, as explained in Finding 7. For the items tested, the university complied, in all material respects, with the significant finance-related legal provisions concerning payroll.

6. Metropolitan State University did not reconcile SCUPPS to SEMA4 on a regular basis and did not resolve differences in the related default cost center.

Metropolitan State University had not reconciled SCUPPS to SEMA4 during fiscal year 2000, and had not resolved past unreconciled balances in the default cost center for fiscal years 1997 through 1999. The reconciliation of SCUPPS to SEMA4 is a necessary control to verify that payroll expenditures were appropriate and properly recorded. We noted that differences between the two systems primarily relate to faculty. Some reasons for the differences include:

- faculty working more hours than their established assignments;
- different bargaining unit sequence numbers;
- assignment dates and disbursement days that did not match;
- SCUPPS record number did not match SEMA4; and
- a number of overpayments.

Metropolitan State University

Metropolitan State University has not reconciled and resolved differences on the SCUPPS to SEMA4 error reports produced each pay period. As a result, the unreconciled items accumulated to the point that the fiscal year 2000 error report for the pay-period ending December 15, 1999, totaled 27 pages. It is difficult to complete the reconciliation when this many differences exist. Ideally, the university should resolve differences on the error report on a pay-period basis.

The university also did not resolve balances in the default cost centers at the end of each fiscal year. The amounts in the default cost centers represent SCUPPS transactions that did not agree with SEMA4. Table 4-1 lists the unresolved balances for fiscal years 1997-1999.

Table 4-1
Default Cost Center Balances
As of February 29, 2000

Year	Amount
1997	$(334,473)
1998	$ 14,471
1999	$ 109,737

Source: MnSCU accounting reports.

The default cost center should have a zero balance at the end of each fiscal year if differences are resolved and costs are allocated to the appropriate funding source.

Recommendations

- *Metropolitan State University should resolve the large number of differences shown on the SCUPPS to SEMA4 error report. In the future, this report should be reconciled and corrections made each pay period.*
- *The university should resolve the balances in the prior year default cost centers.*

7. Metropolitan State University did not promptly enter faculty assignments into the SCUPPS system.

The university did not enter faculty assignments into the SCUPPS system in a timely manner. In order for a faculty to receive a paycheck through the normal payroll process, certain required information needs to be submitted to human resources so that the faculty assignment can be entered into the system. Required information includes an approved assignment request form, a position funding authorization form, a resume, a w-4, an I-9 form, a picture identification, a social security card, and a personal data form. If the departments do not timely submit the required information, the university has to process off-cycle checks outside of the normal payroll process. In addition to the increased work required of the human resource and payroll offices, there may be an increased risk for errors to occur. In fiscal year 1999, 153 of 450 faculty received off-cycle checks.

Recommendation

- *Metropolitan State University should develop a process to ensure that all faculty assignments are submitted in a timely manner.*

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Chapter 5. Operating Expenditures, Supplies, and Equipment

Chapter Conclusions

Metropolitan State University's internal controls provided reasonable assurance that operating expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the university did not have adequate controls over the receipt of supplies and equipment. Also, the university did not complete a physical inventory of fixed assets. For the items tested, the university complied with material finance-related legal provisions.

Metropolitan State University spent over $25 million during the audit period on operating expenditures, supplies, and equipment. Operating expenditures included payments for computer and system services, rent, repairs and maintenance, purchased services, communications, and other miscellaneous costs. The university had a centralized purchasing department responsible for ordering and purchasing. Staff reviewed the budget, ensuring that sufficient funds were available in the applicable cost center, and used MnSCU guidelines to solicit bids and select vendors to complete purchases. Accounts payable staff matched invoices to the respective purchase order and packing slip before processing the payment.

Audit Objectives and Methodology:

Our review of Metropolitan State University's operating expenditures focused on the following questions:

- Did the university's internal controls provide reasonable assurance that operating expenditures, supplies, and equipment were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the university comply with material finance-related legal provisions?

To answer these questions, we made inquiries of university staff to gain an understanding of the internal control structure over purchasing and receiving goods and services, accounts payable, and inventory control. We analyzed expenditures to determine proper recording of expenditure transactions, reviewed source documents to determine proper authorization, and tested invoices to ensure proper payments were made and charged to the correct MnSCU object codes. We also reviewed the university's process to record and safeguard fixed assets.

Conclusion

Metropolitan State University's internal controls provided reasonable assurance that operating expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the university complied with material finance-related legal provisions. However, as discussed in Finding 8, the university did not adequately safeguard its supplies and equipment purchases. Also, the university did not complete a physical inventory of fixed assets, as explained in Finding 9.

8. Metropolitan State University did not adequately safeguard its supplies and equipment purchases.

Metropolitan State University did not secure or limit access to supplies or equipment delivered to the university. In addition, the purchasing agent ordered supplies and equipment and also was responsible for signing for supplies and equipment delivered to the university. Since the remodeling of the university in 1998, the university had been without a centralized loading dock or a designated receiving area. Deliveries were made to several different locations depending on the nature of the item. For example:

- Smaller items were delivered to the receiving room. While this is a locked room, approximately 27 people had access to the receiving room and the deliveries.
- Larger items or larger orders were delivered to individual departments. This made it more difficult to verify that the supplies or equipment were received before making payments.
- UPS packages were delivered to the mailroom. The mailroom remains unlocked throughout the day. This situation provides unauthorized access to the deliveries.
- FedEx packages were delivered to the information desk.

In some cases, individuals who had not actually received the goods had signed the delivery receipts. Deliveries were often left at the locations described above for several days before being delivered to the proper departments. At times, the various locations were not staffed, but deliveries were still made to those locations. The delivery person would go to the information desk to have a staff person sign the delivery receipt. Ideally the person signing for the delivery should see and verify what is delivered.

Not having a centralized location for deliveries increases the risk that unauthorized individuals have access to the supplies and equipment. This provides the opportunity for theft or misuse of property. A centralized, secure, delivery location would provide limited access and a more efficient process for receiving and storing supplies and equipment.

Recommendations

- *The university should review and strengthen its process for receipt of supplies and equipment. Consideration should be given to the establishment of a central receiving area and the safeguarding of those delivered assets from the point of entry into the university to final delivery to specific individuals or university departments.*

- *The university should separate the purchasing functions from the receiving functions.*

9. Metropolitan State University did not complete a physical inventory of fixed assets.

The university has not completed a physical inventory of all fixed assets since November 1996. In addition, the university did not conduct periodic spot checks to verify the existence and location of these assets. An employee responsible for completing the physical inventory resigned approximately one year ago, and as part of a budget reduction, the position has not been filled. No other staff member has been assigned this responsibility. A physical inventory of computer equipment was completed as part of the Y2K preparation during calendar year 1999; however, other fixed assets were not included in this inventory. A complete physical inventory or regular spot checks of fixed assets should be completed on a periodic basis.

Metropolitan State University maintained a fixed asset inventory listing. As fixed assets were purchased, they were coded and inventoried. The finance director produced a quarterly report that provided a listing of expenditures charged to equipment. The finance director reviewed this report and added the fixed assets to the inventory listing.

A physical count of the fixed asset inventory is part of the process to ensure that the amount stated on the financial statements is accurate. A physical count is also necessary in order to keep adequate control of the fixed assets. Without an adequate system of accounting for fixed assets, theft or misuse of those items could go undetected.

Recommendation

- *The university should complete a physical inventory or perform regular spot checks of fixed assets on a periodic basis.*

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Chapter 6. Federal Student Financial Aid

Chapter Conclusions

Metropolitan State University's internal controls provided reasonable assurance that federal student financial aid transactions were properly recorded in the accounting system except that federal Pell receipts were not recorded in a timely manner. However, we found one student was overpaid for a Subsidized Stafford Loan. In addition, for the items tested, the university complied with applicable federal requirements over receiving federal funds.

Metropolitan State University packages and awards financial aid through the Student Aid Reporting and Analysis (SARA) system. This system contains several edits that verify compliance with specific federal requirements. Financial aid packaging is based on student information obtained on the Student Aid Report (SAR). The university compares the application data provided by the student to the SAR for every application received in a process known as "verification." After financial aid has been packaged and awarded, SARA interfaces with MnSCU's Integrated Student Record System (ISRS) accounts receivable module to record the financial aid on the student accounts.

Metropolitan State University participated in various student financial aid programs administered by the U.S. Department of Education. The federal programs reviewed during the audit period included the following:

- *Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA # 84.007)* – FSEOG grants are awarded to exceptionally needy undergraduate students. The college determines a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remaining 25 percent.

- *Federal Pell Grant Program (CFDA #84.063)* – The Pell Grant is generally 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 1999-2000 award year was $3,125.

- *Federal Family Educational Loan (FFEL) Program (CFDA #84.032)* – This program includes both 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.

- *Federal Workstudy (FWS) Program (CFDA #84.003)* – FWS provides part-time employment for students who continue to have financial need after receiving all other available grants. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remaining 25 percent.

Table 6-1 shows the number of recipients and amount for each federal financial aid program for the fall 1999 semester.

Table 6-1
Summary of Financial Aid Disbursed – Fall 1999

	Recipients	Amount
FSEOG	220	$ 34,933
Pell Grant	716	703,431
Unsubsidized Stafford Loans	436	794,929
Subsidized Stafford Loans	770	1,504,391
Fall 1999 Total Aid	2,142	$3,037,684

Note: Federal Workstudy is paid on a continuous basis rather than by semester and is not included in the table.

Source: Federal financial aid disbursements recorded in MnSCU accounting.

Audit Objectives and Methodology

Our review of Metropolitan State University's federal financial aid programs (FSEOG, Pell Grants, FFEL, including Unsubsidized Stafford Loans and Subsidized Stafford Loans, and Federal Workstudy) for the period July 1, 1999, through December 31, 1999, focused on the following questions:

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

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

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

To answer these questions, we interviewed university personnel, and evaluated and tested controls over compliance for determining student eligibility and awarding, packaging, and disbursing federal financial aid. We performed tests to verify that disbursements were properly awarded and accurately recorded in SARA and MnSCU Accounting. In addition, we reviewed university records and tested controls to ensure compliance with regulations governing federal cash management.

Conclusions

Metropolitan State University's internal controls provided reasonable assurance that federal financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations, except that, as explained in Finding 10, federal PELL receipts were not timely recorded in the MnSCU accounting system. In addition, one student was overpaid a Subsidized Stafford Loan, as explained in Finding 11. Metropolitan State University's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received aid in the appropriate amount. In addition, for the items tested, the university complied with applicable federal requirements over receiving federal funds.

10. Metropolitan State University did not record federal Pell funds in MnSCU accounting upon receipt.

Metropolitan State University disbursed Pell program grants for fall semester on September 9, 1999, and recorded the expenditure on MnSCU accounting. On Monday, September 13, 1999, the university drew down $584,000, which was appropriately deposited into the university's local bank account on that same date. However, the university did not record the revenue in MnSCU accounting until October 19, 1999.

Recommendation

- *Metropolitan State University should record the receipt of federal financial aid receipts to MnSCU accounting at the time of deposit.*

11. Metropolitan State University improperly certified a Subsidized Stafford Loan.

Federal guidelines for awarding financial aid require that Subsidized Stafford Loans be given only to students with financial need. Financial need is defined as the cost of attendance at the institution less financial aid and what the student can afford to pay, as determined by the Department of Education. It is allowable to award Unsubsidized Stafford Loans to students with no financial need, as long as the total financial aid doesn't exceed the cost of attendance.

We found one instance where a student was awarded a Subsidized Stafford Loan that exceeded her financial need. The university certified a Subsidized Stafford Loan of $1,500 for a student who was only eligible for $958. The awarding was done incorrectly on SARA and the paper certification contained errors as well.

Recommendation

- *Metropolitan State University should seek reimbursement of the $542 overpayment.*

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Chapter 7. Computer Store

Chapter Conclusions

Metropolitan State University's internal controls over the financial activities of the computer store need to be improved. We noted that the computer store was not promptly paying its vendors, not billing or collecting outstanding accounts receivable, and inappropriately receiving cash and merchandise. In addition, the university did not prepare financial statements for the computer store. For the items tested, Metropolitan State University complied with material finance-related legal provisions and management's authorization.

Metropolitan State University operates a computer store through which university departments, faculty, staff, and students are eligible to purchase computers and software at a discount. The office of the Computer Store Operations Coordinator, located on the university's St. Paul campus, actually serves as the "computer store." In addition to computers and other hardware, the computer store sells accessory pieces, parts, and software. There is a four percent mark-up added to all hardware orders and a ten percent mark-up for software. Faculty, staff, and students must sign a Microcomputer Discount Purchase Agreement stating that they meet the eligibility requirements.

Computer store financial activity on MnSCU accounting for fiscal year 1999 showed revenues of approximately $760,000 and expenditures of $670,000.

Audit Objectives and Methodology

Our review of Metropolitan State University's computer store operations focused on the following questions:

- Did the university's internal controls provide reasonable assurance that the financial activities of the computer store were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the university comply with material finance-related legal provisions and management's authorization?

To answer these questions, we interviewed university employees to gain an understanding of the current controls over the computer store operations. We reviewed computer store procedures placed into operation subsequent to our last audit. We reviewed the accounting records, vendor invoices, purchase orders, requisitions, and inventory records. In addition, we followed up on prior audit findings addressed to the computer sales store.

Conclusions

Metropolitan State University's internal controls over the financial activities of the computer store need to be improved. As discussed in Finding 12, the computer store was not promptly paying its vendors, not billing or collecting outstanding accounts receivable, and inappropriately receiving cash and merchandise. In addition, the university did not prepare financial statements for the computer store. For the items tested, Metropolitan State University complied with material finance-related legal provisions and management's authorization.

Computer Store Operations

Metropolitan State University developed operating procedures for the computer store and the business office in response to our prior audit findings concerning the computer store. Those procedures addressed two of our three findings and provided more business office involvement in the computer store's operations. In an effort to strengthen controls, the procedures required students and faculty to pay for computer purchases in advance of orders being placed. The payments were made to the business office and not the computer store. The computer store maintained a listing of computers in inventory. While the new procedures provided the university with certain safeguards, it also introduced redundant and confusing directives involving the process, including the preparation of duplicative purchase orders and invoices. As a result, we noted areas within the computer store operation that can be improved, as discussed in Finding 12.

The university disagreed with our prior recommendation to prepare annual financial statements for the computer store, citing the additional cost involved. However, we believe that measuring the financial results of the computer store is necessary for the university to assure itself of the viability of the store and that related costs are fully recovered. Accordingly, we have included this prior issue in Finding 12 below.

12. Metropolitan State University's computer store operations can be improved.

We noted various weaknesses in the control structure established to account for computer store financial activities. These issues are further discussed below:

- Vendors were not paid on a timely basis. The vendor's invoices for computer purchases were received in the business office. The business office forwarded the invoice to the computer store for verification of items received and the amounts charged. The computer store authorized the invoice and returned it to the business office for payment. However, this process has caused delays, and vendors have not been paid within 30 days. For instance, one invoice from a major vendor of the computer store was received in the business office on September 4, 1999. The business office did not receive authorization from the computer store to pay the invoice until January 9, 2000. The vendor threatened to suspend sales to the school.

- The university did not have an appropriate process to follow up on computer store accounts receivable balances from university departments. We noted $17,360 in charges to university departments from August 1999 through December 1999 that were not collected as of March 31, 2000. We were told that since these were obligations from other university departments, the validity of the receivables was not a concern. However, these receivables need to be collected and the related expenditures recorded in departmental accounts.

- The computer store receives its own merchandise and intermittently receives vendor rebate checks. Currently, the same individual in the computer store is responsible for ordering and receiving computers and other merchandise. In addition, the university mailroom intermittently delivers vendor rebate checks to the computer store instead of the business office.

- The business office did not prepare accurate and complete financial statements for the computer store. The computer store prepared incomplete statements for fiscal year 1998. The 1998 statements did not include certain costs such as payroll. However, no statements were prepared for fiscal year 1999. Complete financial statements should be prepared at least annually to determine the results of operations and to monitor the financial activity of the computer store.

The university needs to address the control weaknesses in the computer store operations.

Recommendations

- *Metropolitan State University should integrate the computer store functions of purchasing, receiving, invoicing, and disbursing funds as a part of the university's every day process for those functions.*

- *Invoices should be paid within the appropriate time period to take advantage of any discounts and to ensure a continual business relationship with the vendor.*

- *The university should collect the amounts due from university departments for computer store purchases on a timely basis.*

- *All receipts relating to computer store activities should be delivered directly to the cashier for deposit. Deliveries should be made to the central receiving dock. See Finding 8 in Chapter 5, addressing the need for a centralized receiving area.*

- *The university should prepare appropriate financial statements on a routine basis.*

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Status of Prior Audit Issues
As of March 3, 2000

Most Recent Audits

University Audit

Legislative Audit Report 97-26, issued in May 1997, covered the university's material activities and programs, including tuition and fees, payroll, supplies and equipment, rent, private grants, student financial aid, and the computer store. The report contained 13 findings. The university implemented the recommendations relating to prior findings 4 through 10, 12, and 13. Prior findings 1, 2, and 3 regarding the accuracy of financial activity recorded on MnSCU, the insufficiency of collateral for the local bank account, and adequate controls over tuition receipts are repeated in this report.

Finding 11 in the prior report pertained to the preparation of financial statements for the computer store and that all costs associated with the store be recorded. Metropolitan State University indicated that it was not cost beneficial and the benefit to the institution gained through favorable pricing and the application of the "profits" to equipping the computer labs affects the balance of the related costs. We have repeated this finding in our current Finding 12, which also includes additional concerns.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general-purpose financial statements, or the Single Audit, for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report included one finding related specifically to Metropolitan State University.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements, or the Single Audit, for the year ended June 30,1998. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report included one finding related specifically to Metropolitan State University. This finding has not been resolved.

State of Minnesota Audit Follow-Up Process

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

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METROPOLITAN
STATE UNIVERSITY

Office of the President

6 July 2000

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

Dear Mr. Nobles,

Thank you for the opportunity to respond to the audit report on Metropolitan State University for the period July 1, 1996 through December 31, 1999. University staff has reviewed the audit findings and recommendations and has responded to those recommendations in this letter.

#1 [prior finding unresolved] Metropolitan State University did not verify the accuracy of the financial activity recorded in either its local bank account or in the state treasury.

Metropolitan State University agrees that reconciliation problems have existed. We are pleased to report that substantial progress has been made in this area. At the June 2000 meeting of the MnSCU Board of Trustees, Metropolitan State University was recorded as having completed its bank reconciliation process; we will keep it current on a monthly basis.

The MAPS to MnSCU reconciliations are proceeding as follows:

GEN—Excellent progress has been made in reconciling FYs 97, 98, 99, and 2000. The cumulative discrepancy has been reduced to about $3000. Current activity is reconciled regularly. We anticipate complete reconciliation by July 31, 2000.
PGR—The reconciliation problem has been narrowed to three entries that require MnSCU system office assistance to correct.
Payroll Clearing—This has been reconciled, and is now reimbursed after each payroll period.

Responsible person: Lucia Miklas, reconciliation accountant
Jill Bemis, director of finance
MnSCU system office

#2 [prior finding unresolved] Metropolitan State University did not maintain sufficient collateral for its local bank account.

The University agrees with this finding. Metropolitan State University has now secured sufficient collateral to cover its bank account balances, and is monitoring those balances closely to assure that collateral limits are not exceeded.

Responsible person: Jill Bemis, director of finance
Lucia Miklas, reconciliation accountant

700 E. Seventh St. • St. Paul, Minnesota 55106-5000 • Tel: 651-772-7638 • TTY: 651-772-7687 • Fax: 651-772-7669
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#3 Metropolitan State University had not billed or requested reimbursement of funds from certain organizations.

The University agrees with this finding. Backlogged billings and requests for reimbursement have been made current, and procedures now in place will assure that future delays do not occur. Federal drawdowns are performed monthly as well as during the two major disbursement cycles (fall and spring). The foundation and other agencies are billed monthly. The issues surrounding the state financial aid account were somewhat different, involving a flawed process for transmission of reports. We are now reconciling and billing HESO every two weeks.

Responsible person: Bruce Stene, grants accountant
Jill Bemis, director of finance

#4 Metropolitan State University did not correctly record all financial activity on its accounting system.

The University agrees with this finding. Personnel transitions and staffing shortages contributed greatly to this finding. Errors in recording transactions, attributable to lack of training, have been corrected. Timeliness issues are also being addressed with significantly improved processes and controls so errors will not occur. Specific personnel have been assigned to conduct reviews of accounting transactions on a monthly basis.

Responsible person: Jill Bemis, director of finance
Lucia Miklas, reconciliation accountant
Bruce Stene, grants accountant

#5 [Prior finding partially resolved] Metropolitan State University did not adequately control access to its accounting system.

The University agrees with this finding, with qualification. All incompatible clearances under our control have been corrected, with the exception of the clearances for Jill Bemis, director of finance. Staff in the cashier office no longer share log-on numbers. Any remaining incompatibilities of clearance are due to MnSCU system issues of ISRS clearance. In ISRS, access is granted to groups of screens; sometimes in order to get access to a needed screen, an employee is also given inappropriate access to other screens. MnSCU system offices are working on this problem, and Metropolitan State University will continue to monitor all access to systems that are within its control.

Responsible person: MnSCU system office and Jill Bemis, director of finance

#6 Metropolitan State University did not reconcile SCUPPS to SEMA4 on a regular basis and did not resolve the differences in the related default cost center.

The University agrees with this finding. With the assistance of MnSCU central administration, we will be identifying best practices in the relevant HR processes so that timely and regular reconciliations can become a standard part of the work cycle in the Metro State human resources office.

In addition, a process has been put in place in which every pay period the payroll transactions are reviewed, and appropriate corrections are initiated. A work group has already been established, comprising the vice president for administration and finance, the director of human resources, the university budget officer, the reconciliation accountant, and the senior personnel officer. This group has been meeting regularly to identify problem areas in the appointment-payroll-account reconciliation cycle, and to collaborate on process solutions.

Resolution of balances in prior year default cost centers will require assistance from the MnSCU office. Corrections identified as needed will be made in the current fiscal year because prior years have been closed.

Responsible person: Cathleen Brannen, vice president for administration and finance
Janice Anderson, director of human resources
MnSCU system office

#7 Metropolitan State University did not properly enter faculty assignments into the SCUPPS system.

The University agrees with this finding. As with finding #6 above, we will be working to identify process improvements that will result in timely and accurate entry of faculty assignments. Already we can report that the issuance of off-cycle checks has virtually stopped.

Responsible person: Janice Anderson, director of human resources

#8 Metropolitan State University did not adequately safeguard its supplies and equipment purchases.

The University accepts this finding, and notes that changes in Metro State's receiving process were already planned before the audit report was issued. Under the plan, all receiving activity will be centralized in the Metro State mailroom, which will provide a centralized, secure delivery location with limited access and secure storage.

Responsible person: Jill Bemis, director of finance
Dan Kirk, associate vice president for administration

#9 Metropolitan State University did not complete a physical inventory of fixed assets.

The University agrees with this finding. Among the budget cuts made to balance the fiscal year 2000 budget was the position of inventory control clerk, which was frozen. That position has been funded for fiscal year 2001 and will be filled as soon as possible. Because the University's historical inventory records are incomplete as well, we will be issuing an RFP for an outside vendor to perform a wall-to-wall inventory and create our baseline database. The inventory clerk will then be responsible for maintaining this database accurately.

Responsible person: Jill Bemis, director of finance

#10 Metropolitan State University did not record federal Pell funds in MnSCU upon receipt.

The university accepts this finding. Procedures have been put in place to assure that funds received are recorded timely in MnSCU.

Responsible person: Jill Bemis, director of finance
Bruce Stene, grants accountant

#11 Metropolitan State University improperly certified a subsidized Stafford Loan.

The university agrees with this finding. Metro State has repaid the $542 overpayment, and the student's account has been debited for that amount. Independently, a process has been developed and implemented that reviews not only grants awarded to students, but loan eligibility for students in each term of their enrollment. This process will catch potential overpayments before they become a problem. In addition, Metro State will assess the amount of risk it has been assuming by the practice of repaying the federal government for overpayments, and shifting the student's debt assignment to Metro State.

Responsible person: Jim Cleaveland, director of financial aid
Cathleen Brannen, vice president for administration and finance

#12 Metropolitan State University's computer store operations can be improved.

The university agrees with this finding. Discussions are underway to revamp management of the computer store, with all significant accounting activity shifted to the business office. The problematic double purchase orders (one from the department to the computer store, another from the computer store to the vendor) have been eliminated. Further improvements in the computer store operation are desired and anticipated. We believe this operation provides a valuable service to the Metro State community, but believe it can be operated more efficiently and effectively than it has been.

Responsible person: Cathleen Brannen, vice president for administration and finance
Jill Bemis, director of finance

Sincerely,

/s/ Wilson Bradshaw

Wilson Bradshaw
President
Metropolitan State University

Cc: Leah Harvey, Vice President for Academic Affairs
Esther Peralez, Vice President for Student Affairs
Cathleen Brannen, Vice President for Administration and Finance