



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota State University Moorhead
July 1, 1996, through December 31, 1999



Financial Audit Division

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- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Roland Barden, President
Minnesota State University Moorhead

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

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

This report is intended for the information of the Legislative Audit Commission, the management of Minnesota State University Moorhead, 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 August 11, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 18, 2000

Report Signed On: August 7, 2000

Minnesota State University Moorhead

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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
Tom Donahue, CPA,	Audit Manager
Charlie Gill	Auditor-In-Charge
Mike Byzewski	Auditor
Crystal Eskridge	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Minnesota State University Moorhead at the exit conference held on July 26, 2000:

System Office:

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

Minnesota State University Moorhead:

Roland Barden	President
David Crockett	Vice President of Administrative Affairs
Mark Rice	Business Manager

Report Summary

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

Key Findings:

- The university did not adequately restrict certain employee computer access privileges. (Finding 1, page 7)
- The university did not have a systematic process to determine the total cost of bookstore operations. (Finding 2, page 8)
- The university did not write off old uncollectible account balances. (Finding 3, page 12)

Agency Response:

In its response, Minnesota State University Moorhead agreed with the report's findings and is taking corrective action to resolve the issues.

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Chapter 1. Introduction

Minnesota State University Moorhead is a public, liberal arts university in the northwest part of Minnesota. On July 1, 2000, the university officially changed its name from Moorhead State University to Minnesota State University Moorhead. The university was established in 1887 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. Dr. Roland Barden is the president of Minnesota State University Moorhead and has served in that position since July 1, 1994.

Minnesota State University Moorhead provides more than 80 academic programs within its four colleges. Its mission is to serve the broad educational needs of the people of the region and others who are attracted to its various programs. For the 1998-99 school year, the university's student population totaled about 5,987 full-year equivalent students.

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

Minnesota State University Moorhead is affiliated with the Moorhead State University Alumni 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.

Minnesota State University Moorhead

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Trust Fund</u>
Revenues:				
State Appropriations	\$27,460,917	\$ 0	\$ 0	\$ 0
Tuition and Fees	14,646,259	1,263,758	1,286,071	(1,500)
Sales and Services ⁽²⁾	38,245	414,275	2,643,003	0
Room and Board	48	0	4,651,862	0
Federal Grants	0	4,367,853	1,485	0
State Grants	2,806,000	0	0	0
Private Grants	1,000	231,384	55,161	1,013,860
Other Income	407,476	38,895	440,723	0
Total Revenues	<u>\$45,359,945</u>	<u>\$6,316,165</u>	<u>\$9,078,305</u>	<u>\$1,012,360</u>
Expenditures/Expenses:				
Salaries	\$34,859,001	\$1,348,997	\$2,623,736	\$ 0
Purchased Services	3,005,816	431,001	2,892,917	0
Utilities	1,190,158	16,136	701,245	0
Contract/Consultants	397,524	272,929	205,164	0
Supplies	2,362,068	351,522	875,355	4,953
Financial Aid	2,327,724	3,356,709	352,782	632,238
Capital Expenditures	426,914	25,105	72,333	0
Debt Service – Interest	187,012		35,455	0
Other	406,126	360,321	497,778	(300)
Total Expenditures/Expenses	<u>\$45,162,343</u>	<u>\$6,162,720</u>	<u>\$8,256,765</u>	<u>\$ 636,891</u>
Transfers:				
Transfers-In	\$ 32,540	\$ 409,701	\$ 948,036	\$ 83,324
Transfers-Out	0	(357,603)	(1,598,585)	0
Net Transfers	<u>\$ 32,540</u>	<u>\$ 52,098</u>	<u>\$ (650,548)</u>	<u>\$ 83,324</u>
Change in Fund Balance	\$ 230,142	\$ 205,543	\$ 170,991	\$ 458,793
Beginning Fund Balance				
FY 1999 Balance Forward	<u>1,938,527</u>	<u>651,839</u>	<u>10,396,379</u>	<u>14,494</u>
Ending Fund Balance ⁽³⁾	<u><u>\$2,168,669</u></u>	<u><u>\$ 857,382</u></u>	<u><u>\$10,567,370</u></u>	<u><u>\$ 473,287</u></u>

Note (1) This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, 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 \$4.3 million.

Note (2) Enterprise Fund sales and services are net of cost of good sold, as follows:

Sales and Services – Gross	\$5,667,375
Cost of Goods Sold	<u>(3,024,372)</u>
Sales and Services – Net	\$2,643,003

Note (3) Fund balance for the General Fund includes a university budgetary reserve of \$330,206, 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 contract obligations, prior year encumbrances, and other obligations.

Note (4) An additional \$5.68 million was expended on capitol projects and land acquisitions from July 1, 1995, to June 30, 1999.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Minnesota State University Moorhead operated within available resources and in compliance with applicable legal provisions and management's authorization. In addition, the university's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. However, the university did not adequately restrict computer security clearances in several departments. Also, the university did not have a systematic process to determine the total cost of bookstore operations. The university maintained an appropriate operating relationship with its foundation. In addition, for the items tested, the university complied with applicable legal provisions regarding local bank accounts.

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

Audit Objectives and Methodology

Our review of the 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 relationship with its foundation?
- For the items tested, did the university comply with applicable legal provisions regarding local bank accounts?

Minnesota State University Moorhead

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 reconciliation's, 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. We reviewed security privileges to determine whether the university adequately limited access to its computerized business systems. In addition, we reviewed the agreement between the university and its foundation and the foundation's annual audited financial statements.

Budgetary Controls

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

Once Minnesota State University Moorhead determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The university establishes individual cost centers for each department or office to monitor its budget status. University management also monitors projected versus actual student enrollment to ensure that sufficient tuition revenues will be received to support the spending budget. The university also built a reserve balance into its budget formula. As of June 30, 1999, Minnesota State University Moorhead had about a one percent budget reserve, or approximately \$330,206. The university indicated that beginning in fiscal year 2001, it will commit \$250,000 per year for a six-year time period in order to build its reserve to the required five percent level. MnSCU policy 5.4 specifies that colleges and universities reach a five to seven percent reserve level by fiscal year 2001.

Financial Operations

The university has four operating divisions: Public Affairs, Academic Affairs, Administrative Affairs, and Student Affairs. The Public Affairs Division operated under the direction of the president. Each of the other divisions operated under a vice president. The Administrative Affairs Division, responsible for the financial affairs of the university, included the business office, purchasing section, bookstore, personnel office, payroll, and post office. The business office has a comptroller and 19 employees. The business office oversees the cashing, accounts receivable, and payroll functions. The purchasing section performs purchasing and accounts payable functions. The university's comptroller reconciles MnSCU accounting with MAPS quarterly. In addition, the local bank account activity is reconciled monthly. At the time of our audit fieldwork, monthly differences approximated \$100.

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Bookstore Operations

Minnesota State University Moorhead owns and operates a bookstore, which generated total revenues of \$3,948,669 during the fiscal year ending June 30, 1999. As a part of the bookstore, the university also operates a computer store in which students, faculty, and university departments can purchase computers at a reduced rate. Computer store revenues during fiscal year 1999 were \$536,757 and are included in the bookstore revenues above.

During the audit period, the MnSCU Office of Internal Audit notified the Legislative Auditor about the loss of computer equipment from the university's computer store. The possible theft was turned over to the Moorhead Police Department for follow-up. The Office of Internal Audit is working with the police department on a review of issues relating to the loss.

Conclusions

Minnesota State University Moorhead operated within available resources and in compliance with applicable legal provisions and management's authorization. In addition, the university's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. However, as explained in Finding 1, the university did not adequately restrict computer security clearances in several departments. Also, as discussed in Finding 2, the university did not have a systematic process to determine the total cost of bookstore operations. The university maintained an appropriate operating relationship with its foundation. In addition, for the items tested, the university complied with applicable legal provisions regarding local bank accounts.

1. Minnesota State University Moorhead did not adequately restrict certain employee computer access privileges.

Minnesota State University Moorhead did not adequately restrict computer security clearances in several areas. Our review of security during the audit period identified the following incompatible clearances within the MnSCU accounting personnel and student financial aid systems:

Accounts Receivable

The cashiers, certain accounting staff, two student workers, and two library staff have full access to the accounts receivable module. This access allows the employees to change tuition and fee rates; enter waivers, deferments, and residency codes; and perform cashiering and other accounts receivable functions.

Since the cashiers collect tuition receipts, they should not have the ability to carry out other accounting functions, such as invoicing or waivers. Accounting staff should not have access to the receipt process, as this is not consistent with their job function. All employees should be limited to the minimum access required to perform their job responsibilities.

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Payroll/Personnel

Two employees in the Payroll Division have the ability to update human resource data in SCUPPS. One employee in the Human Resource Division has the ability to update payroll data in SEMA4. Incompatible profiles create weak access controls and allow errors or irregularities to occur without detection.

Out of 50 people with view or update access to SCUPPS, 18 employees have the ability to update human resource data, of which 14 are not even human resource employees. Access to SCUPPS transactions could permit an employee to make unauthorized personnel changes to SCUPPS and use those transactions to initiate improper payroll transactions.

Financial Aid

Two employees have the ability to update financial aid data and perform various business office functions, including cashiering and disbursing funds. Federal regulation 34 CFR 668.16(c) requires separation of federal aid awarding from the disbursing or delivery functions. There is the risk that an employee with incompatible access could manipulate grant and loan records.

Recommendations

- *Minnesota State University Moorhead 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 employees access to the screens needed for their jobs. If, because of limited staffing, employee access cannot be restricted, the university should establish effective detective controls to ensure the propriety of financial transactions. It should also work with the system office to allow “view only” screens when needed.*
- *Minnesota State University Moorhead should periodically review its security clearances to ensure that employees only have the access needed to perform their job responsibilities.*

2. PRIOR FINDING PARTIALLY RESOLVED: Moorhead State University did not have a systematic process to determine the total cost of bookstore operations.

The university has opted to assess its bookstore an administrative fees instead of charging it for all costs associated with the bookstore’s operation, such as facilities, custodial, maintenance and utilities. The university considers the administrative fee to approximate all General Fund costs associated with its bookstore operations. While the administrative fee concept may provide certain efficiencies, we were unable to determine whether the fee actually reflected the total direct and indirect expenses incurred on the bookstore’s behalf.

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The university's bookstore is accounted for as an Enterprise fund. As such, it should measure the total actual cost of operations for financial reporting purposes. In our prior audit finding, we noted that the university did not have a systematic basis for how it determined the 6.5 percent administrative fee. We recommended that the university enter into an agreement with its bookstore and specify the administrative fee assessed, what the fee was intended to represent, and how the fee collected would be spent. We also recommended that the university work with MnSCU system office to determine a reasonable amount that the bookstore should reimburse to the General Fund.

During the audit period, the university entered into an agreement with its bookstore, which provided for an annual administrative fee to be charged to the bookstore. The administrative fee agreed to was 6.5 percent of bookstore net sales, excluding revenues generated from the computer store. The fee has remained 6.5 percent for each fiscal year of the audit period. The bookstore paid administrative fees of \$197,754, \$205,700, and \$217,661 for fiscal years 1997, 1998, and 1999, respectively. It is the policy of the university to transfer the administrative fee collected from the bookstore to its scholarship program. In addition, residual profits of the bookstore also are used for university scholarships.

For financial reporting purposes, enterprise funds should measure the total cost of its operations whether or not those costs are funded from enterprise activities or subsidized by other sources. It is important that the university identify and document all costs for financial reporting purposes and for management decisions on funding practices.

Recommendation

- *Minnesota State University Moorhead should identify and document all costs of its bookstore for financial reporting purposes and management decisions on funding practices.*

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Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

Minnesota State University Moorhead'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 1 in Chapter 2, the university did not adequately restrict computer security clearances to its accounts receivable system. In addition, the university did not write off uncollectible accounts. For the items tested, Minnesota State University Moorhead complied with material finance-related legal provisions for tuition, fees, and room and board.

Minnesota State University Moorhead offers academic courses on a semester basis in both undergraduate and graduate programs. Changes to tuition and fee rates take effect fall semester and extend through summer semester. In the 1998-99 school year, the university charged resident students \$82.80 per credit for undergraduate courses and \$127.50 per credit for graduate courses. The university charged nonresident students \$186.53 per credit for undergraduate courses and \$202.10 per credit for graduate courses. The university collected approximately \$60 million in tuition and fees and \$16 million in room and board revenue for the audit period.

Audit Objectives and Methodology

Our review of the university's tuition, fees, and room and board 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 with the significant finance-related legal provisions concerning tuition, fees, and room and board?

To answer these questions, we interviewed university employees to gain an understanding of the controls over tuition, fees, and room and board. We reviewed accounts receivable records and MnSCU accounting records to determine if the university charged students the appropriate tuition and fee rates, collected earned revenue, and properly recorded revenue transactions. We also reviewed bank deposit documentation to determine if the university, with respect to items specifically tested, complied with material finance-related legal provisions. Finally, we reviewed how the university monitored and pursued collection of its accounts receivables.

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Accounts Receivable

The university required students to pay tuition and fees by the third week 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 to be uncollectible. MCE returns uncollectible accounts to the university.

The new Integrated Student Record System (ISRS), contains various student data and registration modules that share common data through various interfaces. The ISRS accounts receivable module 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. The university uses this report to balance its cash registers.

Conclusions

Minnesota State University Moorhead'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 restrict computer security clearances to its accounts receivable system, as discussed in Finding 1, Chapter 2. In addition, the university did not write off uncollectible accounts as explained in Finding 3. For the items tested, Minnesota State University Moorhead complied with material finance-related legal provisions for tuition, fees, and room and board.

3. Minnesota State University Moorhead did not write off old uncollectible account balances.

The university has not written off old uncollectible accounts receivable balances for several years. As of May 23, 2000, university records indicated a total balance due of \$176,485, from accounts prior to June 30, 1998. However, the university has not determined the portion of that amount that is uncollectible. During the audit period, the MnSCU accounts receivable system did not have the ability to age accounts receivable or identify outstanding balances that were uncollectible. The university continued to maintain the balances in MnSCU accounting. To improve accuracy in reporting, uncollectible accounts should be written off after all collection efforts have been exhausted.

Recommendation

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

Chapter 4. Payroll Expenditures

Chapter Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that employee and student payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as explained in Finding 1 in Chapter 2, there were employees with incompatible access to update SEMA4 and SCUPPS. For the items tested, the university complied with material finance-related legal provisions and bargaining agreements.

Payroll represents one of the university's largest operating costs, totaling \$125 million, or 44 percent of total expenditures during the audit period. Payroll data is reviewed, approved, and processed by payroll office staff. Personnel data is reviewed, approved, and processed by human resource staff. Staff assignments, pay rates, and bargaining agreement information are maintained in the State Colleges and Universities Personnel/Payroll System (SCUPPS). SCUPPS interfaces into the State Employee Management System (SEMA4) to generate paychecks or direct deposits to university employees. Student payroll information is maintained on the student payroll module of MnSCU's Integrated Student Record System (ISRS).

Minnesota State University Moorhead employed 588 full-time faculty and administrators, 117 part-time faculty and staff, 199 adjunct faculty, and 1,554 student employees during fiscal year 2000. College employees are covered by various compensation plans including the following organizations:

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

Table 4-1 shows the annual payroll costs for the past three fiscal years.

Table 4-1
Payroll Expenditures
Fiscal Years 1997 to 1999

<u>Fiscal Year</u>	<u>Expenditures</u>
1997	\$ 35,624,622
1998	35,829,213
1999	38,935,527

Note: Total expenditures include student payroll.

Source: State Employee Management System (SEMA4) and the state Payroll/Personnel System for fiscal years 1997, 1998, and 1999.

Audit Objectives and Methodology

Our review of the university's employee and student payroll expenditures focused on the following questions:

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

To answer these questions, we obtained an understanding of the internal control structure over the personnel, payroll, and student payroll process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified and student employees, and tested payrate increases for management authorization and compliance with bargaining unit agreements. Payroll transactions were summarized, reviewed, and compared to SCUPPS appointments for a sample of employees. We also examined employee leave balances maintained by the university.

Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that employee and student payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as explained in Finding 1, Chapter 2, there were employees with incompatible access to update SEMA4 and SCUPPS. For the items tested, the university complied with material finance related legal provisions concerning employee and student payroll.

Chapter 5. Equipment Expenditures

Chapter Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that equipment expenditures were properly authorized and accurately reported in the accounting records. In addition, for the items tested, the university complied with material finance-related legal provisions.

Minnesota State University Moorhead's equipment expenditures for the audit period totaled \$2,707,575 and consisted mostly of computer purchases. The majority of university departments enter purchase orders on-line. Some departments still use a manual purchase order. University departments with on-line access enter purchase orders and encumber funds electronically. The department heads approve the purchase orders electronically and forward them to the business office. The business office confirms the sufficiency of funding in the appropriation and either faxes or mails the purchase order to the vendor. The receiving department compares the equipment received to the packing slip and the purchase order and delivers the equipment to the requesting department. Computer equipment is delivered directly to the computer center for tagging. The computer center forwards computer equipment to the requesting department. The requesting department approves the packing slip and forwards it to the business office. The business office compares the packing slip with the invoice and prepares the payment using the department's assigned cost center.

Audit Objective and Methodology

Our review of the university's equipment expenditures focused on the following question:

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

To answer this question, we interviewed university personnel to gain an understanding of the controls over the equipment purchasing process. We reviewed the reasonableness of equipment expenditures and traced selected transactions through the requisition and payment process and posting to MnSCU accounting.

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Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that equipment expenditures were properly authorized and accurately reported in the accounting records. In addition, for the items tested, the university complied with material finance-related legal provisions.

Chapter 6. Student Financial Aid

Chapter Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. The university's internal controls provided reasonable assurance that only eligible students received aid in the appropriate amounts. However, as explained in Finding 1, Chapter 2, the university did not adequately restrict computer security clearances over financial aid. In addition, for the items tested, the university complied with applicable federal requirements over receiving federal funds

Minnesota State University Moorhead packages and awards financial aid via a computerized application. The financial aid module is one of twenty-two modules that make up MnSCU's Integrated Student Record System (ISRS). Moorhead was one of three universities selected to use the ISRS program in the pilot stage during fiscal year 1998. Fiscal year 2000 is the second year ISRS served as the sole financial aid system. The financial aid module interfaces with other modules within ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor, and also accepts and stores the institutional financial aid application and tax data from the student. A comparison of application data provided by the student to the Student Aid Report (SAR) identifies any discrepancies, beyond accepted tolerances, in a process called 'verification'. The electronic version of the SAR is called the Institutional Student Information Record (ISIR). The system enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the institution. Through interfaces into the accounts receivable modules, the system automatically applies awards by updating for actual disbursement of aid to the students. Similarly, adjusted expenditures are interfaced into MnSCU accounting.

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

Minnesota State University Moorhead participates in a variety of federal financial aid programs. Table 6-1 summarizes program expenditures for fiscal year 2000 as of December 31, 1999.

Minnesota State University Moorhead

Table 6-1
Minnesota State University Moorhead
Federal Financial Aid Expenditures
Fiscal Year 2000 as of December 31, 1999

<u>CFDA Number</u>	<u>Program</u>	<u>Total Expenditures</u>
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	\$180,098
84.033	Federal Work-Study (FWS)	\$247,386
84.038	Federal Perkins Loan	\$502,483
84.063	Federal Pell Grant	\$1,509,390
84.268	Federal Direct Loan	\$7,240,913

Source: Integrated Student Record System (ISRS) as of December 31, 1999.

The Federal Pell Grant is considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the student's enrollment level. Pell Grant funding is not limited to funds available at an institution. The maximum Pell Grant for the 1999-2000 award year was \$3,125 per student.

The Federal Direct Loan Program replaced the Federal Family Education Loan (FFEL) at the university. This program includes Subsidized and Unsubsidized loans that are available through the William D. Ford Federal Direct Loan Program. Funds are lent to students directly by the U.S. government. Students may receive both subsidized and unsubsidized loans for the same enrollment period. A subsidized loan is awarded based on the financial need of the student. The student is not charged interest before they begin repayment or during authorized deferment periods. The federal government "subsidizes" the interest during these periods. An unsubsidized loan is not awarded on the basis of need, and students are charged interest from the time the loan is disbursed until it is paid in full. The maximum award amount for a given student is determined by the borrower's grade level and the amount previously borrowed.

The PLUS loan is a loan to parents to pay the educational expenses of each child who is a dependent undergraduate student enrolled at least part-time. Parents must have a good credit history and pass a credit check. The loan is available through the Direct Loan Program. The interest rate may change each year of repayment but by law will never exceed nine percent. The yearly limit for a PLUS loan is equal to the student's cost of attendance minus any other financial aid received.

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 contributions. MnSCU's Student Loan Service Center performs loan collection duties including corresponding with students entering repayment status, receiving loan repayments, and pursuing delinquent loans.

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

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state contributes the remaining 25 percent of the program funding. A freshman student may receive a maximum of \$1,800 for FWS. Other students may receive a maximum of \$2,400 in FWS funds. A student receiving FSEOG may receive a maximum of \$4,000.

Minnesota State University Moorhead also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office (MnHESO). The university packages Minnesota state grants along with federal financial aid. MnHESO determines eligibility for the state grant program and reimburses the university for eligible grant disbursements. The maximum award was \$4,133 for the 1999-2000 award year.

The university also participates in the Minnesota Student Educational Loan Fund (SELF) and State Work-Study programs. A SELF loan is available to undergraduate and graduate students who either need additional aid beyond the amount offered or have no financial need. SELF loan maximums are based on the student's grade level. State Work-Study provides jobs for undergraduate and graduate students with financial need. The university's financial aid office determines eligibility annually. Award maximums are the same as those for federal work-study.

Audit Objectives and Methodology

Our review of the university's federal financial aid programs (FSEOG, Pell Grants, Direct Loan Program, including Unsubsidized and Subsidized 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 employees from the university financial aid and business offices and tested controls over compliance for key finance-related legal requirements. In addition, we reviewed university records and tested controls to ensure compliance with regulations governing federal cash management.

Conclusions

Minnesota State University Moorhead's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. The university's internal controls over packaging and awarding federal financial aid provided reasonable assurance that

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only eligible students received aid in the appropriate amounts. However, as explained in Finding 1, Chapter 2, the university did not adequately restrict computer security clearances over financial aid. In addition, for the items tested, the university complied with applicable federal requirements over receiving federal funds.

Status of Prior Audit Issues As of April 14, 2000

Most Recent Audits

University Audit

Legislative Audit Report 97-36, issued in June 1997, covered material activities of the university for the period July 1, 1995, through December 31, 1996. It included the testing of tuition and fees, payroll and other administrative expenditures, and bookstore revenues and expenditures for the period July 1, 1995, through December 31, 1996. We also reviewed the university's internal control structure over compliance with federal student financial aid for the period July 1, 1996, to December 31, 1996. The report contained two findings and related recommendations. The university implemented one finding. The second finding was partially implemented and is repeated as Finding 2 of this report.

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 and 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. The report contained one finding related specifically to Minnesota State University Moorhead. This finding is in the process of resolution with the U.S. Department of Education.

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 and 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. The report contained one finding related to Minnesota State University Moorhead. This finding has 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 aid 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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Office of the President

July 28, 2000

James Nobles
Legislative Auditor
100 Centennial Office Building
658 Cedar St
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Minnesota State University Moorhead financial management systems for the period July 1, 1996 through December 31, 1999.

My thanks to your staff for the professional and courteous manner in which they conducted the audit.

Listed below is our response to the findings:

1. Minnesota State University Moorhead did not adequately restrict certain employee computer access privileges.

Recommendations:

Minnesota State University Moorhead 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.

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

Response:

We concur with this finding and have already taken corrective action. We will continue to review security clearances on a periodic basis. A very significant issue that arose in addressing this finding is the broad range of activities that occurs with some security clearances. We will work with MnSCU to narrow the scope of authorization within some clearances.

2. PRIOR FINDING PATIALLY RESOLVED: Minnesota State University Moorhead did not have a systematic process to determine the total cost of bookstore operations.

Recommendation:

Minnesota State University Moorhead should identify and document all costs of its bookstore for financial reporting purposes and management decisions on funding practices.

Response:

We concur with this finding and have identified the direct and indirect costs of bookstore operations. These costs do not change the administrative fee assessed bookstore operations.

3. Minnesota State University Moorhead did not write off old uncollectible account balances.

Recommendation:

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

Response:

We concur with this finding and have identified those accounts that are uncollectible. MnSCU procedures for writing off uncollectible accounts are in development and will be used by MSUM when completed.

Sincerely,

/s/ Roland Barden

Roland Barden
President

cc: Laura King, MnSCU Vice Chancellor for Finance
John Asmussen, MnSCU Exec. Dir., Internal Audit
David Crockett, V.P. for Administrative Affairs
Mark Rice, Comptroller