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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

St. Cloud State University

July 1, 1998, through June 30, 2000

APRIL 26, 2001 **01-20**

Financial Audit Division

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Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Roy H. Saigo, President
St. Cloud State University

We have audited selected areas of St. Cloud State University for the period July 1, 1998, through June 30, 2000, as further explained in Chapter 1. Our audit scope included: tuition and fees, room and board revenues, payroll, selected expenditure areas, computer store operations, and miscellaneous revenues. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal years 2000 and 2001. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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

This report is intended for the information of the Legislative Audit Commission, the management of St. Cloud State University, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 26, 2001.

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

End of Fieldwork: January 12, 2001

Report Signed On: April 23, 2001

St. Cloud State University

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
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David Poliseno, CPA, CISA	Auditor-In-Charge
Steve Johnson, CPA, CISA	Senior Auditor
George Deden, CPA	Senior Auditor
Susan Mady	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of St. Cloud State University and the MnSCU System Office at the exit conference held on March 28, 2001:

MnSCU System Office:	
Michael Vekich	Chair, MnSCU Board of Trustees
Mary Choate	Chair, MnSCU Audit Committee
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director, Financial Reporting
Deb Winter	Director, Campus Assistance
John Asmussen	Executive Director, Internal Auditing
Melissa Primus	Regional Audit Coordinator
St. Cloud State University:	
Roy Saigo	President
Eugene Gilchrist	Vice President of Administrative Affairs
Frank Loncorich	Director, Financial Aid
Richard Burke	Director, Business Services

Report Summary

St. Cloud State University's budgetary controls provided reasonable assurance that it operated within available resources and effectively monitored its revenue and expenditure budgets. These budgetary controls allowed the university to foresee a projected budget deficit of $4,000,000, as of December 2000, for the current fiscal year ending June 30, 2001. We found the university has developed formal plans to eliminate this projected shortfall.

Our prior audit noted that the university had not reconciled its accounting system to the state treasury and local bank account records. The current audit found these critical reconciliations were up-to-date as of December 2000. We noted, however, the following compliance concerns and internal control weaknesses impacting the safeguarding of assets and recording of financial activities in the accounting system.

Key Findings:

- The university entered into a contract directing certain revenues to its affiliated foundation. We found that no MnSCU board or campus policies existed to govern this practice. While foundation funding is eventually returned to support university programs, the university loses control over the availability and use of the money. We believe the university should have retained these moneys in university accounts for operating uses and to offset costs incurred under the contract. It was also noted that a university employee executed the contract on the foundation's behalf contrary to MnSCU policy. (Finding 1, page 11).
- University cashiers had excessive system access to adjust receivables and post waivers. We recommended modification of their access rights and an independent review of daily cash close-out and system waiver reports to mitigate the risk of unauthorized transactions. Also, the university did not have a sufficient process to refer old uncollected student accounts receivable balances to the Minnesota Collection Enterprise (MCE) for recovery. (Findings 3 and 4, pages 16-17)
- Certain accounting system payments were not coded correctly by the university. We found that transactions coded as supplies were not necessarily supply purchases. We also noted concern with the improper identification of the date of obligation on payment transactions. (Finding 5, page 25)
- The university did not adequately control access to its computerized financial aid system and did not timely return undisbursed FFEL loan proceeds to lenders. We also noted the need for improved assurances that amounts reported in MnSCU accounting agree with the financial aid system and the Perkin's Loan Management System. (Findings 6 through 10, pages 30-34)
- We noted that the university was in litigation with the former bookstore operator and had not collected over $930,000 from its new operator. The new bookstore operator is now facing bankruptcy and full recovery of the amount owed is in jeopardy. (Finding 11, page 37)
- The university lacked formal policies providing management direction on the spending of various commissions and interest earnings. Improved financial reporting and internal control were recommended for the university's computer store operations. (Findings 12 through 14, pages 37-39)

St. Cloud State University is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, room and board, payroll, selected operating expenditures, computer store operations and miscellaneous revenues for the period from July 1, 1998 through June 30, 2000. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal years 2000 and 2001. The university's response is included in the report.

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Chapter 1. Introduction

St. Cloud State University was established in 1869. The campus is located 70 miles northwest of the Twin Cities. The university offers students a comprehensive undergraduate and graduate program of more than 125 fields of study in five colleges and the School of Graduate and Continuing Studies. In addition to its on-campus programs, St. Cloud State University provides students with unique opportunities for international education, offering residential undergraduate study programs in foreign countries such as England, France, Germany, Japan, and Costa Rica.

With an enrollment of about 12,500 full-time equivalent (FTE) students, St. Cloud State University is the largest of the seven state universities in the Minnesota State Colleges and Universities (MnSCU) system. Among some of the unique fields of study are mass communication, business computer and information systems, child and family studies, insurance and risk management, meteorology, aviation, information media, electrical and manufacturing engineering, biotechnology, and criminal justice. The university also offers a nationally recognized Honors Program for highly motivated students with demonstrated academic strengths. St. Cloud State University's faculty members are distinguished in research, publication, and community service. Dr. Bruce F. Grube was the president of St. Cloud State University until June 1999 and Dr. Suzanne Williams served as interim president from June 1999 until June 2000. Dr. Roy H. Saigo became the current president in July 2000.

During our audit period, the university constructed a state-of-the-art library facility on campus. The university funded the construction of the James W. Miller Learning Resources Center through two primary funding sources. The university received a $29,500,000 state appropriation and the St. Cloud State University Foundation, Inc. provided $2,500,000 through its fundraising campaigns. The construction began in August 1998 and the facility opened in August 2000.

St. Cloud State 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 the individual colleges and universities based on a formula. Table 1-1 provides a summary of the university's sources and uses of funds reported in the General Fund, Special Revenue Funds, Enterprise Funds, and Trust Funds for the fiscal year ended June 30, 2000.

Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenues:				
State Appropriations	$50,811,066	$ 0	$ 0	$ 0
Tuition and Fees	33,852,918	3,318,550	1,784,977	0
Sales and Services [(3)]	30,990	1,369,002	3,479,828	33,037
Room and Board	0	0	9,109,118	0
Federal Grants	0	6,005,540	0	11,971
State Grants	1,235,317	5,005,763	0	19,063
Private Grants	57,867	1,788,692	2,400	1,398,976
Other Income	2,163,688	58,249	507,295	854,267
Total Revenues	$88,151,846	$17,545,797	$14,883,619	$2,317,314
Expenditures/Expenses:				
Salaries	$74,153,103	$ 4,596,173	$ 4,346,415	$ 0
Purchased Services	6,480,781	1,104,386	4,414,859	0
Utilities	2,285,862	58,536	910,590	0
Contract/Consultants	862,612	235,361	219,592	0
Supplies	5,001,869	902,466	1,271,863	39,604
Financial Aid	199,401	9,873,233	0	2,700,402
Capital Expenditures	1,022,927	172,198	106,831	0
Debt Service – Interest	959,894	55	28,334	0
Other	1,446,691	1,010,058	51,171	(53,446)
Total Expenditures/Expenses	$92,413,141	$17,952,465	$11,349,654	$2,686,560
Transfers:				
Transfers-In	$ 92,724	$ 363,375	$ 1,064,317	$ 677,071
Transfers-Out	(360,243)	(21,457)	(1,599,727)	(12,303)
Net Transfers	(267,520)	341,918	(535,409)	664,768
Change in Fund Balance	(4,528,815)	(64,750)	2,998,555	295,521
Beginning Fund Balance [(4)(5)]	10,795,903	1,751,648	13,861,610	(102,865)
Ending Fund Balance	$ 6,267,088	$ 1,686,898	$16,860,165	$ 192,656

Note (1): This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Agency Fund and Capital Project Fund financial activities are not included in Table 1-1. 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, 2000, were estimated at $8.7 million for the General Fund.

Note (2) The Board Designated Reserve for the General Fund at June 30, 2000, is $4.1 million. Also, $791,425 of the ending fund balance is reserved for future obligations, such as Special Dedicated Appropriations, outstanding encumbrances, and faculty contractual commitments. These reserve estimates include certain contingent liabilities for university litigation. During fiscal year 2001, the federal court approved a settlement for a gender equity class action lawsuit. The settlement provided $600,000 in backpay, $170,000 prospective pay, and $60,000 to class representatives. The settlement does not include attorney's fees, which must still be resolved. Any attorney's fee obligation will be paid from the MnSCU system budget. It should also be noted that the Enterprise Fund balance does not include additional contingent liabilities for litigation involving non-General Fund monies. The university is in dispute with the former bookstore vendor. The case is currently pending in the courts with the plaintiff seeking nearly $2.5 million.

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Note (3) Certain Enterprise Fund activities, such as the university computer store, do not include all allocable costs such as rent and utilities. Other activities were assessed administrative costs using an indirect cost charge originally determined in 1996, as discussed in Finding 2. Enterprise fund sales and services are shown net of cost of good sold as follows:

Sales and Services – Gross	$4,626,748
Cost of Goods Sold	1,146,920
Sales and Services – Net	$3,479,828

Note (4) Due to the concerns raised with transition to a new Perkins Loan Management System, as discussed in Finding 9, and untimely prior year interest allocation, as discussed in Finding 10, the beginning fund balance for Enterprise Funds may not be accurate. Also, Finding 9 noted that Enterprise Fund revenues were overstated by $67,000 due to correction for fiscal year 2000 that was made in fiscal year 2001.

Note (5) The negative beginning fund balance in the Trust Fund account was due to a delay in the collection of third party billings. The expenses were recorded, but the university did not receive the funds until after the close of the books.

Source: Prepared by MnSCU accounting staff.

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Chapter 2. Financial Management

Chapter Conclusions

St. Cloud State University's budgetary controls provided reasonable assurance that it operated within available resources for fiscal years 1999 and 2000 and that it had an effective process to monitor its revenue and expenditure budgets. These budgetary controls allowed the university to foresee a $4,000,000 projected budget deficit, as of December 2000, for the current fiscal year ending June 30, 2001. We found the university has developed formal plans to eliminate this projected shortfall. Although it has taken these steps to resolve the current fiscal year deficit, it may take several years to replenish the university's reserves.

We encountered a contractual arrangement where the university directed certain revenues to its foundation. The university entered into an "exclusive pouring rights" contract with a local beverage distributor, providing a majority of the proceeds to the foundation. We found that no MnSCU guidelines or university policies existed to explicitly permit or prohibit directing revenues of this nature outside university accounts. While foundation funding is eventually returned to support university programs, the university loses control over the availability and use of the money. In light of the current budget deficit, we feel the university should have retained these moneys for operating uses and to offset costs incurred under the contract. Further, a university employee improperly authorized the contract on behalf of the foundation.

University internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded on the accounting systems. Our prior audit noted concern that the university had untimely accounting system reconciliations to the state treasury and local bank account records. However, the current audit found that during fiscal year 2000 the reconciliations were brought up to date, and as of December 2000, the university's bank and state treasury reconciliations were completed in a timely manner. Our previous audit also raised concerns with inadequate restriction of computer security access privileges. The current audit found the university improved security controls, but we noted concerns with cashiers' access, as discussed in Finding 3, and access to the ISRS financial aid module, as discussed in Finding 6.

We noted a concern that the university had not reviewed or modified its indirect cost allocations since they originally were prepared in 1996, despite the increasing cost of these centralized services.

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

Budgetary Controls

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

Once the university determines its authorized spending level, it allocates spending budgets for various administrative areas and academic departments. The university projects payroll costs, allocates department supply and equipment budgets, and establishes individual cost centers for each department or office to monitor its budget status. University management also monitors projected versus actual student enrollment to ensure sufficient tuition revenues are generated to support the spending budget. The university also budgets a reserve amount. As shown in Table 1-1, the university had a fund balance of $6.3 million in its General Fund accounts for the fiscal year ended June 30, 2000.

During the fall of 2000, the university projected a budget deficit of about $4,000,000 for the fiscal year ending June 30, 2001. It attributed most of the deficit to lower actual student enrollment than was planned and increased contractual salary commitments. Because the university did not meet a five percent reserve benchmark established by the Board of Trustees, they accordingly submitted a report to the chancellor outlining their plans to eliminate the deficit and restore the required reserve amount. St. Cloud State University’s plan included leaving vacant positions unfilled, reducing supply and equipment budgets, delaying some repair and betterment projects, and utilizing enterprise reserves. As a result, the university plans to eliminate the deficit and anticipates ending fiscal year 2001 with a small surplus. It may take several years for the university to replenish its reserves to the level required by the Board of Trustees.

Financial Operations

St. Cloud State University used one local bank account to facilitate the deposit of its funds. The university uses this account as its state depository from which the majority of receipts are “swept” by the State Treasurer’s Office into the state treasury. The local bank account also holds student financial aid funds and other moneys. To ensure the accuracy of the accounting records, the university performs accounting system reconciliations to the state treasury and bank accounting records. University funds are protected under a collateral agreement with the bank.

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The university invested the majority of the cash in its local bank account in repurchase agreements. In addition, at the end of each business day, the bank invested available cash on behalf of the university. The university subsequently distributed the interest proceeds to various university accounts and departments. However, we noted the need for a university policy governing the interest allocation and uses of interest earnings as discussed in Chapter 7, Finding 12.

Private Grants

St. Cloud State University received private grants totaling $11.3 million during the two-year audit period from various organizations, including its foundation, for student scholarships and other programs. It received local scholarship and grant funding for specifically identified students and also funding where grantors specified eligibility criteria, and the university selected the students.

Private grants also included funding from organizations for research, specific projects, or in return for services performed. For fiscal years 1999 and 2000, St. Cloud State University received $1,601,418 and $1,787,788, respectively, for these types of grants. Some of the more significant grants included the Highway Safety Center, AAA Driver Program, Central Minnesota Library Exchange, and the Holocaust Education Grants.

Foundation

St. Cloud State University is affiliated with the St. Cloud State University Foundation, Inc., a non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The university provided administrative support to the foundation for which it was fully reimbursed. Foundation financial statements are prepared annually and subjected to an external audit by a CPA firm. According to the audited fiscal year 2000 financial statements, the St. Cloud State University Foundation, Inc. reported total revenues of $5,315,256 and total expenses of $3,245,194. As of June 30, 2000, the foundation reported an ending net asset balance of approximately $20 million.

Audit Objectives and Methodology

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

- Did the university's internal controls provide reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization?
- Did university internal controls provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did the university establish an appropriate operating relationship with its foundation?

To answer these questions, we interviewed university personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. We also reviewed important management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the university properly recorded its state treasury and local bank activities. We tested bank account activity for compliance with collateral requirements. We also reviewed the university's agreement with its foundation. Finally, we reviewed the administration of security privileges to determine whether the university had adequately restricted access to its computerized business systems.

Conclusions

During the period of our audit, university budgetary controls provided reasonable assurance that it operated within available resources and that it had an effective process to monitor its revenue and expenditure budgets. The budget monitoring allowed the university to project a $4,000,000 budget shortfall, as of December 2000, for the current fiscal year ending June 30, 2001. We found the university has developed formal plans to eliminate this projected shortfall. Although it has taken these steps to eliminate the current fiscal year deficit, it may take several years to replenish its reserves.

We encountered a contractual arrangement where the university directed certain revenue to its foundation. The university entered into an "exclusive pouring rights" contract with a local beverage distributor, providing the foundation with the majority of the proceeds. We found that no MnSCU guidelines or university policies existed to explicitly permit or prohibit directing revenues of this nature outside university accounts. While foundation funding is eventually returned to support university programs, the university loses control over the availability and use of the money. Given the current budget deficit, we feel the university should have retained these moneys for operating uses and to offset costs incurred under the contract. Further, a university employee improperly authorized the contract on behalf of the foundation creating a question regarding its validity.

University internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded on the accounting systems. Our prior audit determined that the university had untimely accounting system reconciliations to the state treasury and local bank account records. However, we found that by June 2000 the reconciliations were up-to-date. The reconciliations allowed the university to identify a bank variance of $11,240 that it eventually wrote off. As of December 2000, its bank and state treasury reconciliations remained current. We did note a concern that the university had not reviewed or modified its indirect cost allocations since they were initially prepared in 1996. The costs of these central services have increased.

Our previous audit also raised concern with inadequate restriction of computer security access privileges. The current audit found the university improved security controls, but we noted concerns with cashiers' access, as discussed in Finding 3, and access to the ISRS financial aid module, as discussed in Finding 6.

1. St. Cloud State University entered into a contract in which it directed certain "exclusive rights" revenue to its foundation.

St. Cloud State University entered into a contractual agreement for "exclusive pouring rights" with a third-party beverage company. We found that the university directed the majority of the revenues generated under this contract to its foundation, St. Cloud State University Foundation, Inc. We feel the university should have retained these moneys for its general operating use and to offset costs incurred under the contract. Additionally, a university employee executed the contract on behalf of the foundation in violation of MnSCU policy.

In March 2000, the university entered into an exclusive ten-year vending contract with a local beverage distributor and its foundation. Prior to this new contract, the university collected revenues from various vending contracts that ran for limited time periods and were periodically re-bid. The current "exclusive pouring rights" contract gave the vendor the sole right to sell its products on campus for the ensuing ten years. As shown in Table 2-1, the agreement created four separate revenue streams with the majority of the funding being directed to the university foundation.

Table 2-1
"Exclusive Rights" Contract Revenues and Commissions

Funds Directed To	Annual Support Payment	10-year Total
Unrestricted Support to Foundation (1)	$200,000	$1,000,000
Guaranteed Sales Incentive to Foundation	76,500	765,000
Total Revenue to be Directed to Foundation	$276,500	$1,765,000
Restricted Support to University Athletics	$ 10,000	$ 100,000
Guaranteed Vending Commission to University	29,000	290,000
Total Revenue to be Directed to University	$ 39,000	$ 390,000
Contract Totals	$315,500	$2,155,000

Note (1): The contract called for $200,000 in the first year, $100,000 for the next seven years, and $50,000 for the last two years.
Source: St. Cloud State University contract files.

We question the university's decision to direct revenues generated under this exclusive rights agreement to its foundation. No MnSCU university policies existed to explicitly permit or prohibit the directing of these types of revenues to the foundation. Despite the fact that foundation funding is eventually returned in support for university programs, the foundation is not subject to the same stringent state rules and regulations governing university spending. Also, by directing the contractual proceeds to the foundation in this manner, the university loses direct influence over the availability and use of the money. For example, this money is not available to help reduce the current budget shortfall. Furthermore, other key contract features support retention of the contractual revenues. If the contract is cancelled by the university, it, not the foundation, would be required to pay the vendor $150,000. Also, we noted the university incurred certain costs under the contract. For example, the university made a payment of $7,930 for installation of replacement panels and signage for advertising the vendor's product throughout the campus.

We also determined that a university employee improperly executed the vending contract on behalf of the foundation. The university's Vice-President for University Advancement, who also serves as the Executive Director of the university foundation, signed the contract representing the foundation. MnSCU Policy and Procedure 8.3.1 specifically prohibits university employees from executing contracts on behalf of a foundation. By having a university employee authorize the contract on behalf of the foundation, it is unclear whether the foundation is a legal party under the agreement.

Recommendations

- *St. Cloud State University should work with the MnSCU system office and Board of Trustees to establish guidelines concerning the appropriateness of directing these types of revenue to the university foundation.*

- *University employees should refrain from executing contracts on behalf of St. Cloud State University Foundation, Inc.*

2. The university has not reviewed and revised its indirect cost allocations since they were originally prepared in 1996, despite increases in these central service costs.

St. Cloud State University has not reviewed or updated its indirect cost allocations, also called revenue enhancement, since 1996. Over four years ago, the university prepared an allocation plan to charge certain non-General Fund operations for institutionally provided services. Each year the university billed and collected about $600,000 for such things as maintenance and custodial services, business office support, and other central services. The university originally funded these costs from the General Fund and used an allocation formula to assess the appropriate user departments. Recoveries were deposited back into the General Fund to offset the original costs. However, we found that the university has billed each of the departments the same amount since 1996 even though the costs of providing those services have increased since that time. The primary cost associated with these central services is payroll, which has steadily risen since 1996. As a result, the General Fund is subsidizing these activities.

Recommendation

- *St. Cloud State University should periodically review its indirect cost allocation and adjust the assessments accordingly.*

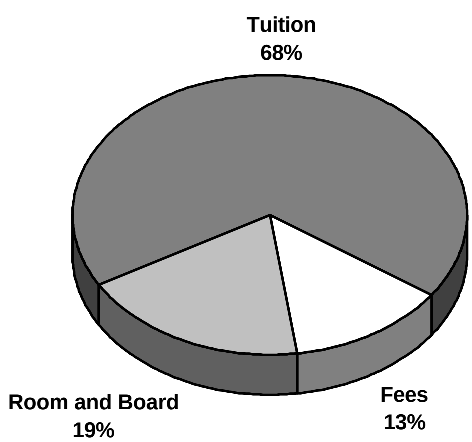
Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

St. Cloud State University's internal controls provided reasonable assurance that tuition, fees, and room and board revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted that cashiers initiated billing adjustments and updated waiver transactions. We recommended security changes, as well as an independent review of the daily cash closeout and preparation of a waiver transaction report. We also noted that the university lacked a structure to resolve old outstanding accounts receivable balances. For the items tested, the university complied with significant finance-related legal provisions concerning tuition, fees, and room and board. However, we detected that the university erroneously waived tuition and fees for ten students totaling $16,787. We provided the university with the names of the ten students, and they billed the students for the charges owed.

St. Cloud State University collected approximately $48 million in tuition, fees, and room and board during fiscal year 2000. Figure 3-1 shows the breakdown of the revenue by type.

Figure 3-1
Tuition, Fees, and Room and Board Revenue
Fiscal Year 2000



Source: MnSCU accounting system.

St. Cloud State University

Tuition, Fees, and Room and Board

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

Table 3-1 shows the university's Full Year Equivalent (FYE) students by level for the 2000 fall semester and the tuition rates in effect for the 2000-2001 school year.

Table 3-1
Student FYE Counts and Tuition Rates
2000 Fall Semester

Student Type	Number of Students	Percent	On-Campus Tuition Rates	Off-Campus Tuition Rates	Non-Resident Tuition Rates
Lower	7,340	58%	$92.80	$112.50	$201.45
Upper	4,145	32%	$92.80	$112.50	$201.45
Graduate	1,093	9%	$141.65	$162.20	$224.45
Developmental	108	1%	N/A	N/A	N/A
Total	**12,686**	**100%**			

Source: MnSCU system management reports.

The university also offered students several room and board options. Students chose from 13 different meal plans. For the 2000-2001 school year, room and board rates for various options ranged from $1,070 to $2,109 per semester. The university's dormitories and food service are part of MnSCU's system-wide Revenue Fund activity.

Accounts Receivable

The university began using the new ISRS accounts receivable module during the 1998 fall semester. The accounts receivable module accumulates all student charges from a variety of sources. When the students pay their bill at the business office, staff enter the collections into the system, and the system automatically applies the money to the outstanding balances in a specified priority order. As part of the closeout process, an accounts receivable report, which summarizes the day's collections and postings, is produced. Business office staff use this report to balance their cash registers to transactions posted to MnSCU accounting.

In previous years, St. Cloud State University allowed students to drop their classes by the end of the third class day to avoid obligation for tuition and fees assessed. If students did not pay their bills by the specified due date, the university canceled their registration and the financial obligation to pay tuition owed. However, starting with the fall 2000 semester, the university required students to pay the cost of classes enrolled in at the end of the fifth day of the semester.

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The university required students to pay tuition, fees, and room and board charges by a specified deadline, typically the 21st day of class. If not paid by this deadline, 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 collection on past due account receivables by mailing bills to students periodically.

Audit Objectives and Methodology

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

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

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

Conclusions

University internal controls provided reasonable assurance that tuition, fees, and room and board revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted that cashiers initiated billing adjustments and updated waiver transactions. These responsibilities should be performed by staff independent of the cash handling function. We recommended an independent review of the daily cash closeout and preparation of a waiver transaction report. We also noted that the university lacked a structure to resolve old outstanding accounts receivable balances. For the items tested, the university complied with significant finance-related legal provisions concerning tuition, fees, and room and board. However, we detected that the university erroneously waived tuition and fees totaling $16,787 for ten students. We provided the university with the names of these ten students, and they billed the students for the charges owed.

3. University cashiers have the ability to adjust billings and waive charges, and no independent review of daily cash closeout or posting of waivers exists.

St. Cloud State University did not adequately restrict computer security clearances for its business office cashiers. The cashiers were responsible for posting non-cash transactions, or waivers, without a sufficient review of their work. Our review of duties identified the following concerns with incompatible system access and the lack of independent review of the daily cash close-out:

- Independent staff do not always review the cashiers work. University cashiers were responsible for counting their cash drawer at the end of each day and comparing to the daily cash close-out report from MnSCU accounting. At times, when the employee assigned responsibility for verification was absent, we found that no one other than the cashier reviewed the cash close out report or compared it to actual cash deposited. An independent review would provide reasonable assurance against cash shortages occurring within the cash receipt processing.

- University cashiers had inappropriate ability to post tuition waivers and also could adjust student charges in the ISRS accounts receivable module. Waiver transactions are highly sensitive since they reduce or eliminate a student charge or other amount due to the university. Providing employees that handle cash the ability to post non-cash waivers increases the risk that cash shortages can be concealed. Also, we noted that cashiers had the responsibility for changing student charges, as events deemed necessary. In many cases, a person independent of the cashiering function did not supervise these changes to student charges.

- The university does not produce an ISRS system report to identify and review waivers processed. A report identifying waivers is critical since several staff have ability to update waiver transactions. A waiver report would help management monitor the validity and extent of such transactions.

The university should restrict cashiers ability to update ISRS waivers and billing adjustments. Internal controls should be improved to provide an independent review of the daily cash closeout and monitoring of waiver transactions.

Recommendations

- *St. Cloud State University should provide for an independent review of the daily cash close-out for each cashier.*

- *The university should modify the cashiers' security access rights to eliminate their ability to update billing adjustments and initiate waiver transactions.*

- *The university should use key reports to identify and review waiver transactions posted in MnSCU accounting and to mitigate the risk of unauthorized transactions occurring and going undetected.*

4. The university does not have a sufficient process to refer old, uncollected student account receivable balances to the Minnesota Collection Enterprise.

The university collects the majority of its tuition and fee charges at the beginning of each academic semester. However, we noted a lack of a structured process to resolve unpaid students account balances that occur each semester. For past due accounts, the university continued to bill students but did not submit past due student charges to Minnesota Collection Enterprise (MCE), the state's centralized collection function.

Minn. Stat. Section 16D.04 states that, "When a debt owed to a state agency becomes 121 days past due, the state agency must refer the debt to the commissioner for collection." The statute permits state agencies to collect the debt for an extended period on their own if the debtor is adhering to an acceptable repayment plan. The Department of Finance further permits MnSCU campuses to pursue overdue accounts for 30 days into the subsequent semester's registration period. This allows colleges and universities the ability to deny future registration as a means to resolve the past due debt. If these measures do not result in collection, the unpaid balances are to be referred to MCE.

St. Cloud State University has continued its own internal collection efforts on old account balances. A spreadsheet tracking account status is maintained, but the university had no repayment plan for many unpaid accounts. The university indicated it has not forwarded delinquent student account balances to MCE because of their transition to the new ISRS accounts receivable module. The university expressed concern that it is unsure whether all receivables are valid. They encountered problems with inaccurate billings requiring correction during the first semester that the ISRS accounts receivable module was used. However, the university provided us with lists of the following unpaid receivables that occurred subsequent to that first problematic semester.

Semester, Term	Unpaid Receivables (as of January 2001)
Spring 1999	$128,268
Fall 1999	190,844
Spring 2000	141,373
Summer 2000	57,664

By not forwarding accounts to the MCE, the university is not taking advantage of an effective and efficient collection recovery process.

Recommendation

- *St. Cloud State University should obtain repayment plans from students with delinquent charges. Uncollected student accounts without repayment plans should be forwarded to MCE for collection pursuant to Minn. Stat. Section 16D.04.*

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Chapter 4. Employee and Student Payroll

Chapter Conclusions

St. Cloud State University's internal controls provided reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. For the transactions tested, the university complied with material finance-related legal provisions, including employee collective bargaining agreements and personnel plans.

Payroll represents the largest operating cost for St. Cloud State University. The university maintained separate human resource and payroll offices to handle personnel and payroll transactions. The university used the State's Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll and human resource information. Human resource staff input personnel transactions into SCUPPS while payroll staff ensured the accuracy of employee payroll data in SEMA4 and payroll expenditures in the MnSCU accounting system. Salary and payrate history is maintained in SCUPPS and used to manage and monitor compensation paid to faculty and employees. SCUPPS assignment codes identify different types of instructional and non-instructional assignments for faculty appointments. The university also used the SCUPPS leave module to monitor faculty leave. Table 4-1 summarizes the payroll expenditures for the university for the two years under review.

Table 4-1
Summary of Payroll Expenditures
For Fiscal Years 1999 and 2000

	FY 1999	FY 2000
Employee Salaries	$58,938,290	$61,398,961
Employee Fringe Benefits	13,562,565	14,850,049
Student Salaries	5,662,087	6,060,168
Salary Related Expenses	767,991	873,443
Total Payroll Expenses	$78,930,933	$83,182,621

Source: MnSCU accounting reports for fiscal years 1999 and 2000.

As of December 2000, St. Cloud State University employed approximately 864 faculty and 620 administrative employees. The following organizations represent the university's employees:

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

Certain university litigation with personnel is nearing completion. The university is in the final stages of settling the case of *Fish v. St. Cloud State University*. The litigants, female faculty members, filed the case as a class action lawsuit in the Federal District Court, District of Minnesota regarding alleged violation of Title VII of the Civil Rights Act of 1964. A final settlement on merits was reached on March 26, 2001. The federal court has given approval to the proposed settlement, including $600,000 in back pay, $170,000 prospective pay, and $60,000 to the class representatives. The cost of attorney's fees still needs to be resolved.

Student Payroll

The university also employed students to perform various jobs throughout the campus. During the two fiscal years examined, St. Cloud State University paid over $11.7 million to students in various student payroll programs. The university participated in both the federal and state work-study programs, which provided funding to students based on financial need. The university also employed student workers who were paid from institutional funds.

The university business office entered appointment and tax information into the student payroll system for use in paycheck calculations. Students submitted biweekly timesheets to their supervisors for approval. Academic departments entered the timesheet hours into the student payroll system. The business office reconciled the timesheet hours to the data entered and printed the payroll warrants. The business office subsequently distributed payroll checks to the students and updated the transactions into MnSCU accounting.

Audit Objectives and Methodology

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

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

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

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

Conclusions

University internal controls provided reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. For the items tested, the university complied with material finance-related legal provisions including bargaining unit agreements and personnel plans.

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Chapter 5. Supplies, Equipment, and Services Expenditures

Chapter Conclusions

St. Cloud State University's internal controls provided reasonable assurance that assets were safeguarded, payments were for goods and services actually received, and expenditures were recorded at correct amounts in MnSCU accounting. However, the university did not always use proper object codes and accurate liability dates in its accounting transactions. We noted certain loans, international program tuition, and repair services were coded as supplies in the accounting system. Tests also revealed examples where the dates of liability were incorrect. For the transactions tested, the university procured goods and services and paid vendors in compliance with applicable legal provisions and management's authorization.

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

Table 5-1 provides a breakdown of materials, equipment, and services for the past two fiscal years.

Table 5-1
Significant Expenditure Areas
Fiscal Years 1999 - 2000

	1999	2000
Supplies and Materials	$11,452,096	$11,848,522
Purchased Services	7,159,994	7,678,139
Consultant/Contract Services	5,050,427	5,169,540
Equipment	1,884,784	1,309,177
Total	$25,547,301	$26,005,378

Note 1: Certain financial transactions included above are not shown on Table 1-1 in Chapter 2. The additional balances were primarily due to transactions, such as student activities, that are reported in the Agency Fund.

Note 2: The university also expended capital project monies for purchased and consultant/contract services, supplies and equipment totaling $30,581,071 from July 1, 1998, to June 30, 2000.

Source: MnSCU accounting system for fiscal years 1999 and 2000 as of August 31, 2000.

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

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

The university identifies and tags new equipment with the State of Minnesota identification sticker. New equipment is recorded and tracked on MnSCU's Fixed Asset system. MnSCU policy requires institutions to record fixed assets valued at over $2,000. Fixed assets valued between $500 and $1,999 are recorded at the university's discretion. University employees are engaged in inventory counts throughout the year, as all equipment is being counted on a three-year cycle. As of December 2000, the university's fixed asset records reported equipment with a historical cost of $29,614,357.

Audit Objectives and Methodology

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

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

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

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

Conclusions

St. Cloud State University's internal controls provided reasonable assurance that assets were safeguarded, payments were for goods and services actually received, and expenditures were recorded for correct amounts in MnSCU accounting. However, the university did not always use proper object codes and accurate liability dates in its accounting transactions. We noted that some short-term student loans, international program tuition payments, and repair services were coded as supplies in the accounting system. Tests also revealed examples where the date of liability was incorrect. For the transactions tested, the university procured goods and services and paid vendors in compliance with applicable legal provisions and management's authorization.

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5. St. Cloud State University did not properly code certain expenditure transactions in the MnSCU accounting system.

The university coded certain disbursement transactions using incorrect object code identifiers and liability dates. We found that supply transactions did not always represent supply purchases and noted examples where incorrect coding of the date of liability caused expenditures to be accrued into the wrong fiscal year. Accurate coding of this fundamental data is critical to producing meaningful financial information for management, as well as for reliable financial reporting.

We noted that certain supply transactions were actually for things other than supplies. Short-term student emergency loans, international program tuition payments, and certain repair services were coded as supplies in the accounting system. The miscoding of international tuition and the repair services simply misidentified what the payment was actually for. However, the miscoding of loans as supplies temporarily inflated Endowment Fund supply expenditures in the accounting system. We noted that student loans totaling $976,000 were disbursed over the two-year audit period, but as of June 30, 2000, only $919,000 had been recovered. The remaining $57,000 caused supply expenditures to be overstated for fiscal year 2000. Since the loans were recovered in the subsequent fiscal year, expenditures were understated for fiscal year 2001. Finally, miscoding loans as supply transactions could increase the risk that loans are not recovered since supplies are such a large spending area.

We noted 4 exceptions, out of 39 expenditure transactions tested, where the university coded incorrect liability dates. Generally, it assigned liability dates that were later than the actual date of liability causing an understatement of liabilities to occur at any point in time. We noted the following examples that occurred during 1999 and 2000.

- The university paid $10,757 for professional services rendered in December 1999 and invoiced on December 31, 1999. The payment transaction was made on February 4, 2000, but was coded with a liability date of January 31, 1999, over a year earlier.
- The university paid $19,531 for materials and labor to install a new reception desk. The payment was made on September 23, 1999, and the university coded a liability date of September 14, 1999. The vendor's invoice indicates that the work was performed and completed by August 31, 1999.
- Also, during the fiscal year 2000 Statewide Audit of the MnSCU system-wide financial statements, the MnSCU Office of Internal Auditing determined the university incorrectly coded liability dates on five transactions totaling $365,000. The incorrect occurrence dates caused the transactions to be recorded in the wrong fiscal year, requiring an audit adjustment to the financial statements.

Recommendation

St. Cloud State University should correctly code MnSCU accounting transactions with proper object codes and accurate liability dates.

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Chapter 6. Student Financial Aid

Chapter Conclusions

St. Cloud State University's internal controls provided reasonable assurance that it managed its financial aid programs in compliance with applicable federal and state program requirements. Computerized controls are used to edit eligibility, package and award grants and loans to students, verify enrollment, and interface balances into the ISRS accounts receivable module. However, we noted a security concern with certain individuals who were granted access to the ISRS Financial Aid module. We also found that the university controls did not ensure compliance with a federal regulation requiring that undisbursed FFEL loan proceeds be returned to lenders within ten days. In addition, we reported, in Legislative Auditor Report 01-15, that the university paid one student $2,000 more than the maximum FFEL limit, and another student was overpaid $462 from institution funds due to a mistake in processing a loan payment.

University controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system. However, we encountered problems matching payments posted in the ISRS Financial Aid System to expenditures in MnSCU accounting for financial aid cost centers. Certain cancelled loans did not properly modify the award table in the financial aid system, and a negative balance in the EFT clearing account requires resolution. We also noted concerns with conversion of Perkins loans to a new computerized Loan Management System and the untimely allocation of interest earned.

For the items tested, St. Cloud State University complied with applicable federal requirements concerning the receipt of federal funds.

St. Cloud State University used the MnSCU Integrated Student Record System (ISRS) financial aid module to package and award financial aid. The financial aid module is highly computerized, shares data, and interfaces with other modules within ISRS, such as the account receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor and accepts and stores the institutional financial aid application and tax data from the student. The system compares data provided by the student to the Student Aid Report. Any discrepancies between the two sets of data, beyond established tolerances, are identified in a process called "verification." The system enforces compliance with the legal requirements of the financial aid programs. These legal requirements are defined through a set of system edits and activated at the discretion of the institution. Through an interface into the accounts receivable module, the system automatically ensures that awards and disbursement of aid to the students are kept in sync. Awards are adjusted if enrollment is reduced below a certain credit level at the time of disbursement. The system interfaces these adjusted expenditures into MnSCU accounting.

The university participates in a variety of federal financial aid programs. Table 6-1 summarizes program expenditures for fiscal year 2000.

Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 2000

CFDA #	Program	Amount
84.032	Federal Family Education Loan (FFEL)	$20,209,805
84.063	Pell Grant	$ 4,167,135
84.007	FSEOG	$ 765,676
84.038	Perkins Loan	$ 1,114,783
84.033	Federal Work Study (FWS)	$ 706,992

Source: University Federal Financial Aid information reported to the MnSCU system office for fiscal year 2000.

Students generally received the Federal Pell Grant as the first source of assistance. The federal government did not limit Pell Grant funding to the university; all eligible students received Pell Grant awards. The student's enrollment level, cost of education, and the family's ability to pay will determine eligibility for the grant. The maximum Pell grant for 1999-2000 school year was $3,125 and for the 2000-2001 school year it was $3,300.

The Federal Family Education Loan (FFEL) program includes Stafford Subsidized and Unsubsidized loans. The student borrower applies for the loan from a private lender. The school certifies student eligibility. The federal government guarantee's 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 grade level and the amount previously borrowed determines the maximum FFEL amount for a given student.

The Federal Work-Study Program (FWS) and Federal Supplemental Education Opportunity Grant (FSEOG) are additional sources of federal financial assistance. The federal government funds 75 percent of the total expenditures in the FSEOG and FWS programs. The state contributes 25 percent of the funding for the two programs.

The Federal Perkins Loan Program provides low-interest loans to needy students. The university acts as a lender, using both federal funds and a state match for capital contribution. The university performs loan collection duties, including corresponding with students entering repayment status, receiving loan repayments, and pursuing delinquent loans. The university collected approximately $1,634,181 in Perkins principal, interest, and other repayments during fiscal year 2000.

St. Cloud State University also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The university packages Minnesota state grants along with federal financial aid. The Minnesota Higher Education Services Office (MHESO) determines eligibility for the state grant program and reimburses the university for qualified disbursements. The university's financial aid system reported state grant disbursements of $4,115,191 to students for fiscal year 2000.

Audit Objectives and Methodology

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

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

- Did university 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?

- For items tested, did St. Cloud State University comply with applicable federal requirements over receiving federal funds?

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

Conclusions

The internal controls at St. Cloud State University for fiscal years 2000 and 2001 provided reasonable assurance that it managed its financial aid programs in compliance with applicable federal and state program requirements. Computerized controls are used to edit eligibility, package and award grants and loans to students, verify enrollment, and interface balances into the ISRS accounts receivable module. However, we noted a security concern with four individuals who were granted access to the ISRS Financial Aid module. We also found that the university controls did not ensure compliance with a federal regulation requiring that undisbursed FFEL loan proceeds be returned to lenders within ten days. In addition, we reported, in Legislative Auditor Report 01-15, that the university paid one student $2,000 more than the maximum FFEL limit, and another student was overpaid $462 from institution funds due to a mistake in processing a loan payment.

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University controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system. However, we encountered problems comparing payments between the ISRS financial aid module and MnSCU accounting for financial aid cost centers. Certain cancelled loans did not properly modify the award table in the financial aid system, and a negative balance of $178,131 in the fiscal year 2000 EFT clearing account requires resolution. We also noted concerns with conversion of Perkins loans to a new computerized Loan Management System and the untimely allocation of interest earned.

For the items tested, St. Cloud State University complied with applicable federal requirements concerning the receipt of federal funds.

6. St Cloud State University did not sufficiently restrict computer security access to the ISRS financial aid module.

The university did not adequately restrict access to its computerized financial aid system. The university is responsible to ensure that employees only have the required access necessary to perform their job responsibilities. Our review of the financial aid security access disclosed the following weaknesses:

- One business office employee had management level access to the financial aid application. Access to both business office payment functions and financial aid awarding functions could permit the employee to make unauthorized changes and payments.

- Two former financial aid employees still had access to the ISRS financial aid module. These employees transferred to other departments within the university without a modification of their access rights.

- The university granted access to their financial aid data to MnSCU staff that do not work for St. Cloud State University. The university hosted a financial aid training seminar for other MnSCU institutions and gave the attendees clearance to its system. Training access was cancelled after the class for all individuals except one. Mitigating controls may exist to prevent this individual's ability to remotely utilize this security privilege.

The university should periodically review system security reports to ensure that only authorized employees have access to the various computer systems. It should ensure that employees only have the required level of access to perform their assigned duties.

Recommendation

- *St Cloud State University should modify system access rights for the four individuals. The university should periodically monitor security access clearances to ensure that only authorized employees have access to the various systems and data to perform their assigned job responsibilities.*

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7. The university does not produce reports comparing ISRS financial aid system award payments and MnSCU accounting system disbursements.

St. Cloud State University uses a computer system interface to synchronize the ISRS financial aid module awards and MnSCU accounting system payments. The ISRS financial aid module shows each student's initial award level and the amount actually disbursed through the accounting system is interfaced back into the module. However, we encountered some problems when reconciling payment information between the two systems:

- We found it was difficult to compare the ISRS financial aid award payments to MnSCU accounting expenditures. Differences occurred because of inconsistent recording of summer school attendance between the two systems. In the ISRS financial aid system, the payment is captured for certain award years, while in MnSCU accounting it may be paid from a financial aid cost center with a different fiscal year. The MnSCU system office permits institutions to treat summer school this way, however, certain reports are needed to provide ability to track expenditures between the systems. A comparison is also complicated by different types of federal loan payments that flow through a central EFT clearing account in MnSCU accounting. A report matching the ISRS financial aid award payments to the associated MnSCU accounting cost center would be useful and provide management with increased assurances.

- A few instances were noted where the ISRS award tables were not properly adjusted for FFEL loans that were returned to lenders. For example, the university received $2,000 in loan proceeds for one student but the student subsequently decided to only accept $189. The university canceled the remaining $1,811 and returned it to the lender. However, the ISRS financial aid module showed that the student received a $2,000 loan. By not reducing the award table for loans declined, the student may not be considered for future loans since the system packaging logic uses the cumulative loan balance. This is necessary because program guidelines limit the cumulative maximum amount that an individual can receive based on their academic grade level.

- Finally, we noted that the MnSCU accounting EFT clearing account used for fiscal year 2000 had a negative balance of $178,131 as of January 2001. The intent is that the account should zero-out each fiscal year-end. All moneys received should be used for tuition and fees, or paid in a residual check to the student. It is possible that some loan disbursements were not recorded in the same fiscal year as the EFT receipts.

Recommendations

- *St. Cloud State University should produce a system report comparing ISRS financial aid system payments to MnSCU accounting financial aid cost center expenditures to ensure that accounting records are accurate and complete.*

- *The university should initiate an ISRS Financial Aid system modification to adjust the awards table for FFEL loans that are cancelled and returned to lenders.*

- *The university should review and resolve the negative balance in the EFT clearing account in the MnSCU accounting system.*

8. PRIOR FINDING PARTIALLY RESOLVED: The university did not timely return undisbursed Federal Family Education Loan (FFEL) funds to lenders.

St. Cloud State University did not return undisbursed FFEL funds to lenders within ten days, as required by federal regulations. During our last audit, we noted the university lacked a process to identify and return unused FFEL loan proceeds to lenders within ten days. They subsequently developed a system report identifying the students whose funds have been held over ten days. However, the university did not always act on the information in this report, resulting in delays in returning FFEL loan money.

The university provided us with an example of the report they generated to monitor loans held for ten days. The report, dated November 21, 2000, showed several loans that were sent EFT to the university during October 2000. Clearly, these loan proceeds were held longer than ten days since the report was not generated until 21 days into the subsequent month. In order to comply with federal regulations, the university must produce the report more frequently. Also, the MnSCU Office of Internal Auditing performed follow-up work on our prior audit finding. They received information from one guarantee lending agency indicating the university has held a large number of loan proceeds for 90 days or longer.

University students borrow from bank lenders who provide electronic funds transfer (EFT) to the university. When students do not enroll, drop credits, or subsequently decline the loan, the funds need to be returned to the originating lender. This is a common circumstance that will occur every semester and the university must, in these situations, ensure it returns the moneys within the timeframes specified by federal regulations.

Recommendation

- *St. Cloud State University should return undisbursed FFEL funds to lenders within ten days as required by federal regulations.*

9. The university has not resolved differences resulting from transition to a new computerized loan system and has not reconciled it to MnSCU accounting.

The university has not resolved certain discrepancies associated with its conversion to the Perkins Loan Management System (LMS). During the conversion, $35,564 of loans were not updated on LMS. Also, incorrect accounting for certain loan cancellation transactions created the need for some unusual adjustments in MnSCU accounting. To further confuse matters, the university incorrectly accounted for some short-term emergency loans in the new LMS system. These transition problems have not allowed the university to develop a formal reconciliation of financial activity between the LMS and MnSCU accounting systems.

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The MnSCU system office required all institutions to convert their Perkins loans in MnSCU's Loan Management System. As part of the conversion, most colleges and universities also transferred their collection responsibilities to the central office. However, St. Cloud State University decided to retain this responsibility. The university enters the various loan information, such as disbursements, cancellations, deferments, and repayments, in LMS. The university also maintains responsibility for the accuracy of financial information contained in the accounting systems. A review of the Perkins loan systems transition disclosed the following concerns:

- The university did not update LMS with correct balances from its former UNISYS loan system. Two types of discrepancies were associated with conversion of loan balances into LMS:

  - The university has not updated student loans totaling $35,564 in the LMS loan system. An automated loan transfer process rejected several loans, and the university has not yet updated these balances in LMS. The university indicated it continues to bill and collect these Perkins loans outside of the LMS system.

  - During the conversion from UNISYS to LMS, loan cancellations forwarded to the federal government were incorrectly recorded in MnSCU accounting. The university cancelled $67,000 of Perkins loans for teachers working in impoverished areas. The conversion recorded these loan cancellations as cash payment transactions in LMS and, ultimately, MnSCU accounting. A reversing entry was made in MnSCU accounting to correct revenue amounts; however, this occurred in the subsequent fiscal year.

- The university also used LMS to manage short-term emergency loans provided to students. Separate accounts were set up in LMS to isolate these loans from the federal Perkins loans. However, during the implementation of LMS, the university misapplied about $77,000 to the Perkins general ledger instead of the emergency loans ledger in MnSCU accounting. The university subsequently corrected these accounting errors.

- Since the conversion, the university has not established a reconciliation between the LMS loan subsystem and MnSCU accounting. The previously mentioned conversion problems made it difficult to formalize a comparison between the systems. Without a reconciliation of Perkins loan balances, new loans issued, and loan repayments and cancellations, there is an increased risk that errors or irregularities may occur and not be detected by the university.

The incomplete LMS loan balances, numerous accounting adjustments, lack of a formal periodic reconciliation, and the untimely interest allocations, discussed in Finding 10, create some uncertainty about the accuracy of the Perkins Loan beginning fund balance and annual revenues as reported in MnSCU accounting for fiscal year 2000.

Recommendations

- *St. Cloud State University should update the unrecorded student loans totaling $35,564 into the LMS loan system.*

- *The university should reconcile LMS loan balances, new loans issued, and loan repayments and cancellations to MnSCU accounting on a periodic basis to ensure the accuracy of both systems.*

10. The university has not made timely interest allocations to the federal Perkins loan account.

St. Cloud State University maintains its Perkins loan funds in its local bank account along with other funds held outside the state treasury. The bank invests the idle cash on behalf of the university and credits the interest earnings to their bank account. The university manages the cash balances for its various accounts in MnSCU accounting. Interest is distributed annually, generally in the subsequent fiscal year, to the accounts that earned the interest. However, in fiscal year 1999 and 2000, the university only distributed $39 and $51, respectively, to the Perkins account for the interest earned during 1998 and 1999. In fiscal year 2001, the university allocated $39,464 to the Perkins account for interest earned in fiscal year 2000. They indicated they are working to determine the exact amount of interest the Perkins account is due for prior years. Federal regulations allow universities to co-mingle Perkins funds with other funds in the same bank account, as long as the Perkins account receives its proper share of interest earnings.

Recommendation

- *St. Cloud State University should determine the actual amount of interest earnings owed to the Perkins loan account for prior years and transfer that amount. More timely interest allocations should be made in the future.*

Chapter 7. Miscellaneous Revenue

Chapter Conclusions

St. Cloud State University needs to provide better assurance that it collected and deposited all of the miscellaneous revenue it earned, and that these revenues were used for purposes authorized by management. We found that the university was in litigation with its former bookstore operator over how much should be paid for unsold inventory upon contract termination. It also has not collected over $930,000 from its new bookstore operator that has since filed bankruptcy. We also noted the campus has not developed formal policies and procedures for spending miscellaneous revenues. It lacked formal management direction governing the handling of various sources of income, such as commission revenue and interest income. Finally, we determined that the university did not provide a complete measurement of its computer store financial operations nor deposit computer store receipts in a timely manner.

St. Cloud State University earns revenues from various sources, including commissions from bookstore, vending, and food service operations. The university also earns interest on repurchase agreements by investing its idle cash from its local accounts. It also operates a computer store for the benefit of the university and the students.

Commission Revenues

The university contracted for various revenue-generating services, such as its bookstore, food service, and vending machine operations. Depending on the contract, the university generally provided space and other miscellaneous services to the vendors. The vendors paid a commission to the university based on total revenues generated. The vendors provide various documentation, such as cash register tapes, to support the revenue amount and the university commission earned. Table 7-1 shows these revenues by category.

Table 7-1
Summary of Commission and Interest Revenue
Fiscal Years 1999 and 2000

	FY 1999	FY 2000
Bookstore	$ 362,223	$ 391,976
Food Service	292,726	304,744
Interest Income	276,352	303,052
Vending Machines	131,217	161,462
Other Miscellaneous Revenues	87,070	51,940
Total	$1,149,588	$1,213,174

Source: MnSCU accounting system for fiscal years 1999 and 2000 as of August 31, 2000.

St. Cloud State University

Computer Store

St. Cloud State University operates a computer store through which academic departments, staff, and students can purchase computers at reduced prices. The computer store is part of the Academic Computing Center within the Learning Resources and Technology Services Department that supports the computer operations for all academic departments. Computer store staff and computer technicians work together to provide computer hardware and services to the academic departments. They work with the individual departments to determine the project specifications and oversee the project. The computer store staff assist in purchasing, but the business office is primarily responsible for the procurement and payment functions.

For fiscal years 1999 and 2000, the computer store collected revenue of $2,377,985 and $2,751,589, respectively. It incurred expenses of $1,996,926 and $2,538,538 for the same two years. However, as addressed in Finding 14, the amounts only reflect direct expenditures and not necessarily all expenditures related to the computer store, such as rent, utilities, and indirect costs. In fiscal year 2000, the university transferred the computer store operations from the Agency Fund to the Enterprise Fund, as suggested in our prior audit.

Audit Objective and Methodology

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

- Did the university's internal controls provide reasonable assurance that miscellaneous revenue collections were safeguarded, accurately reported in the accounting records, established for uses authorized by management, and collected in compliance with applicable legal provisions?

To meet this objective, university employees were interviewed to gain an understanding of controls over computer store, interest, and commission revenue. We also questioned university management and staff regarding the uses of these revenues. Transactions were tested to determine whether revenues collected complied with contracts and were properly recorded in the MnSCU accounting system. Supporting documentation provided by the third-party contractors was reviewed to determine if the university received all revenue earned.

Conclusions

St. Cloud State University needs to provide better assurance that it collected and deposited all of the miscellaneous revenue it earned, and that these revenues were used for purposes authorized by management. We found that the university was in litigation with its former bookstore operator over the value of unsold merchandise at the termination of the contract. It also has not collected over $930,000 due from the new bookstore operator for the months of July to October 2000. The company has since filed bankruptcy. We also noted the university has not developed formal policies and procedures for spending miscellaneous revenues. It lacked formal management direction governing the handling of various sources of income such as commission revenue and interest income. Finally, we determined that the university did not provide a complete measurement of its computer store financial operations nor deposit computer store receipts in a timely manner.

11. St. Cloud State University did not collect money for the initial inventory provided to its new bookstore operator and has not received any commissions due.

The university is in transition to a new bookstore operator. The university terminated its contract with the former bookstore operator resulting in litigation over how much should be paid for the unsold inventory. The case is currently pending in the courts with the former operator seeking nearly $2.5 million.
In its agreement with a new bookstore operator, the vendor agreed to buy the inventory on hand on July 11, 2000, for $761,628. However, the contract did not specify a deadline for payment of this inventory and, as of January 2001, the new bookstore vendor had not paid the university. The university's first bill to the bookstore vendor requesting payment for this inventory was dated October 26, 2000. We feel the university should have required the money be paid immediately since the operator generated the cash from merchandise sales. We also found that the new operator has not paid any commissions to the university as of January 2001. The bookstore contract calls for payment of commissions by the 30th day of the month following sale. Commissions due for July 2000 through October 2000 were $177,339. The university sent a letter to the bookstore vendor on December 27, 2000, indicating that commissions were late. Subsequent to January 2001, the new bookstore operator filed Chapter 11 bankruptcy, and the full recovery of the inventory cost and outstanding commissions is in jeopardy. We think the university should have been more aggressive in pursuing these amounts in a timely manner to increase the probability of collecting amounts due.

Recommendations

- *St. Cloud State University should work with MnSCU legal counsel to resolve outstanding litigation with the former bookstore operator and to maximize recovery of funds in bankruptcy proceedings with the new bookstore operator.*

- *The university should ensure it collects commissions and other amounts due in a timely fashion, to avoid account delinquencies and defaults.*

12. The university does not have formal policies providing management direction on spending its miscellaneous operating revenues.

The university earned over $1 million each of the past two fiscal years from various sources such as commission revenues and interest earnings. Historically, the university has not included these additional revenue streams in its overall budget allocation formula. We found that the university has not developed formal policies for spending this revenue. Although the university used a large share of the revenue for student scholarships, we also found that it spent this revenue on various discretionary areas such as remodeling costs. It also established refreshment accounts for the various university departments.

In 1999 and 2000, the university allocated $16,500 of the vending commission proceeds each year to establish refreshment accounts for the various academic departments. Refreshment accounts of $1,500 each were set up for the various colleges and administrative offices to spend, similar to state agency 'department head expense' accounts. The university has not followed MnSCU System Procedure 5.19.2 governing special expenses. The university had some informal guidelines limiting the use of these funds, such as they cannot be used for alcohol or for regularly scheduled staff meetings. However, we found some departments typically used these funds to provide coffee and rolls for routine meetings.

The university did not have a formal policy for allocating interest income or how it should spend it. The university invested its idle cash in repurchase agreements through its local bank. The university received the interest income monthly and allocated it once each year to various accounts. Generally, the university allocated half of the interest income to some of the accounts that held cash generating the interest income, and the other half was allocated to a discretionary account used by university management. Although it allocated some of the interest back to local accounts, it did not allocate any interest to the local student organizations whose cash generated the bulk of the interest income. The university felt that because it provided administrative overhead support for these accounts it could retain and spend the interest earned, rather than allocating interest back to those accounts. In addition, we noted, in Finding 10, that the university has not finalized prior year interest allocations owed to the federal Perkins loan fund.

With reductions in state appropriation funding, the university has been more creative in generating additional miscellaneous revenue streams. However, it needs to develop formal policies directing the spending of these revenues to ensure they are used in accordance with management's authorization and MnSCU policies.

Recommendations

- *St. Cloud State University should develop formal management policies for spending its miscellaneous commission revenue.*

- *The university should develop formal policies for allocating and spending its interest income revenue.*

13. PRIOR FINDING PARTIALLY RESOLVED: St. Cloud State University did not measure computer store financial results.

During our last audit, we noted the university computer store's financial activities were accounted for in an Agency Fund rather than an Enterprise or Internal Service Fund. As a result, the university established Enterprise Fund accounts for fiscal year 2000. Our last audit also recommended that the university periodically measure computer store operating results. The current audit found that computer store financial statements are still not being compiled nor does MnSCU accounting reflect all assets and financial costs of operating. The computer store operates similar to a private business. It purchases computers and related equipment and resells them to its customers at marked-up prices. The store also provides technical services to university departments. Financial statements are needed to assist management in making pricing decisions and cost allocations by measuring the profit or loss of annual operations. We found that inventory, valued at approximated $40,000 in December 2000, is not being recorded in

MnSCU accounting. Also, the computer store is not allocated all operating costs such as rent, utilities, or indirect costs. Without the financial statements, the university is unable to fully measure the computer store's profitability.

Recommendation

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

14. PRIOR FINDING NOT RESOLVED: St. Cloud State University did not properly safeguard computer store receipts.

The university's computer store did not deposit sales in a timely manner. It also did not secure all receipts by ringing them through the store's cash register. The delayed deposit and the lack of recording of receipts increase the risk of loss or theft. Lost investment income also resulted from the untimely deposit of sales receipts.

Despite some procedural changes since our last audit, we continue to see delays in the depositing of computer store receipts. Our previous audit found that the computer store made large weekly deposits often exceeding $100,000. Most of the large deposits resulted from university departments paying computer store purchases with actual warrants rather than transferring funds. Since our last audit, accounting system transfers are being used to pay the amount owed. While this payment method significantly reduced the volume of receipts, the computer store still collected cash sales averaging $16,490 per deposit. Smaller items sold, such as computer supplies, were rung into the cash register and promptly deposited. However, we found that larger checks received for computer purchases were not timely deposited, pursuant to Minn. Stat. Section 16A.275. For example, the computer store deposited $13,876 on September 25, 2000. The cashier report identifying the checks was dated September 11, 2000. The receipts were held in an onsite safe for at least two weeks.

We are also concerned with checks for computer sales that staff do not immediately record in the computer store's cash register. During our audit, we noted that checks were on hand in the computer store safe. Staff did not ring these computer sales into the cash register when the checks were received. They stored receipts in the safe until deposited, generally every two weeks. During the time the computer store held the receipts in the safe, they were never documented or logged. Without immediate recording of receipts, there is an increased risk that they could be lost or stolen without detection. We noted one example involving a deposit for $28,729 made on February 16, 2000. The deposit included a state warrant for $6,149 dated January 14, 2000, and a foundation warrant for $9,745 dated in 1999. These checks were clearly held in the computer store for an extended period.

Recommendation

- *The St. Cloud State University computer store should immediately record all sales in its cash register when collected and promptly deposit receipts exceeding $250 on a daily basis.*

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Status of Prior Audit Issues
As of January 12, 2001

Most Recent Audits

University Audit

Legislative Audit Report 99-28, issued in May 1999, covered the university's material activities and programs, including tuition, fees, room and board, payroll, administrative expenditures, student financial aid, computer store activities, and commission revenues. The report contained thirteen audit findings of which ten were implemented. One finding reported that the university did not have an efficient process to identify and return undisbursed FFEL loan funds to lenders in a timely manner. The university subsequently developed a system report to identify the loans; however, as reported in Finding 8 of this report, the timely return of loan proceeds continues to be a problem. Two separate findings involving the university computer store were repeated in Findings 13 and 14 of this report.

Statewide/Single Audits

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

Legislative Audit Report 99-19, issued in March 1999, covered MnSCU activities material to the state's general purpose financial statements and federal financial aid programs administered for the year ended June 30, 1998. This audit did not include any financial aid findings related specifically to St. Cloud State University. However, the report raised concern with the fund used to account for the university computer store financial activities. During fiscal year 2000, the university transferred its computer store from an Agency Fund into an Enterprise Fund.

State of Minnesota Audit Follow-Up Process

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

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ST. CLOUD STATE
UNIVERSITY
A tradition of excellence and opportunity

VICE PRESIDENT FOR ADMINISTRATIVE AFFAIRS
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April 16, 2001

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

Dear Mr. Nobles:

We have received and reviewed the final draft audit for St. Cloud State University for the period July 1, 1998, through June 30, 2000. As always, we appreciate the efforts of you and the on-site team in working with us to produce the audit. Your attention to thoroughness and the extensive consultation process before, during and after the audit speak well of you and the staff.

Please accept these comments as our response to the recommendation sections of the audit.

1. **St. Cloud State University entered into a contract in which it directed certain "exclusive rights" revenue to its foundation.**

   - **St. Cloud State University should work with the MnSCU system office and Board of Trustees to establish guidelines concerning the appropriateness of directing these types of revenue to the university foundation.**

We agree that we did enter into the contract. Our view is that this contract is legitimate under the laws of the state of Minnesota, MnSCU policies and campus policies. The contract was developed with MnSCU Finance, MnSCU Legal and the Attorney General. As a part of the continuing evolution of the university Foundations we will participate with MnSCU in possible revisions to policies to recognize these legitimate contracts.

   - **University employees should refrain from executing contracts on behalf of St. Cloud State University Foundation, Inc.**

We agree. The signature was executed shortly after the MnSCU policy had changed. Steps have been taken to change the contract under discussion and to avoid this occurrence in the future.

2. The university has not reviewed and revised its indirect cost allocations since they were originally prepared in 1996, despite increases in these central service costs.

- **St. Cloud State University should periodically review its indirect cost allocation and adjust the assessments accordingly.**

We agree that we should review rates periodically. On the other hand, the university is composed of several different functions funded in several different fashions. There are several different fund groups that house the finances of the campus. The purposes of the M&E fund are sufficiently broad as to allow allocations to fund student development, and student leadership that often occurs outside the bounds of the M&E fund. Therefore, the campus could decide to forgo any overhead charge to the revenue fund and "support" the activities of that fund. While we appreciate the management note, technically speaking, there has been no violation of any law or policy in this instance.

3. University cashiers have the ability to adjust billings and waive charges, and no independent review of daily cash closeout or posting of waivers exists.

- **St. Cloud State University should provide for an independent review of the daily cash closeout for each cashier.**

We agree. This recommendation reviews a period of time during transition to MnSCU Systems, specifically Accounts Receivable. There were many accommodations necessary during that time as evidenced in this and the most recent audit. There is now in place a three-step review that accomplishes this purpose. "Backup" during absences will be developed.

- **The university should modify the cashiers' security access rights to eliminate their ability to update billing adjustments and initiate waiver transactions.**

We agree and the change has been completed.

- **The university should use key reports to identify and review waiver transactions posted in MnSCU accounting and to mitigate the risk of unauthorized transactions occurring and going undetected.**

We agree and have begun the practice.

4. The university does not have a sufficient process to refer old, uncollected student account receivable balances to the Minnesota Collection Enterprise.

- **St. Cloud State University should obtain repayment plans from students with delinquent charges. Uncollected student accounts without repayment plans should be forwarded to MCE for collection pursuant to Minn. Stat. Section 16D.04.**

We agree. The university continues to work with students with delinquent charges to develop plans for repayment. We have also developed a temporary plan to send uncollected accounts to MCE, while a permanent system is sought. However, we hesitate *to point out that of the 40,000 bills posted annually, and 80,000 posted during this time frame, less than one quarter of one percent of those bills are in question in this recommendation.*

5. St. Cloud State University did not properly code certain expenditure transactions in the MnSCU accounting system.

- **St. Cloud State University should correctly code MnSCU accounting transactions with proper object codes and accurate liability dates.**

We agree and have conducted training since the period to correct errors. We will continue the process.

6. St Cloud State University did not sufficiently restrict computer security access to the ISRS financial aid module.

- **St Cloud State University should modify system access rights for the four individuals. The university should periodically monitor security access clearances to ensure that only authorized employees have access to the various systems and data to perform their assigned job responsibilities.**

We concur with the recommendation. As has often been noted in this and the past audit, these findings occurred during a period of systems transition and, in our view, represent unfortunate necessities to serve students during the transition. Nevertheless, we appreciate the findings and we have modified the access rights for the Business Office employee and this individual no longer has managerial access to the financial aid award functions. Access rights were also terminated for the two former Financial Aid Office employees and the one individual that had access to our system for training purposes. These rights were terminated on December 20, 2000. We will periodically monitor security access clearance to insure only authorized persons have access to the system.

7. The university does not produce reports comparing ISRS financial aid system award payments and MnSCU accounting system disbursements.

- **St. Cloud State University should produce a system report comparing ISRS financial aid system payments to MnSCU accounting financial aid cost center expenditures to ensure that accounting records are accurate and complete.**

- **The university should initiate an ISRS Financial Aid system modification to adjust the awards table for FFEL loans that are cancelled and returned to lenders.**

- **The university should review and resolve the negative balance in the EFT clearing account in the MnSCU accounting system.**

We concur with the finding that the financial aid award file should be consistent with the funds disbursed to students. Financial aid awards are made available to students to *attend summer school. Since the old fiscal year ends on June 30, sometime during summer session, it is common to have loans approved in one fiscal year and disbursed in the new fiscal year. This could result in differences in the financial aid and accounting systems at year end. A Microsoft Access report will be developed to help reconcile the awards with the disbursements. A formal report should be developed by MnSCU so it benefits all MnSCU colleges and universities. A request will be submitted to MnSCU development personnel.*

Secondly, we concur that a financial aid system modification was needed to adjust the awards table for FFEL monies that were returned to lenders. This modification request was forwarded to the lead programmer for the financial aid system in mid December, and subsequently has been placed into production. There was a slight problem with the program which required a "0" entry. However, the program was modified to accept both "0" and blank entries which now results in correct information being placed on the financial aid award file.

Third, we concur with your recommendation that we should resolve negative balances in the EFT clearing account in the MnSCU accounting system. A new schedule of MnSCU financial aid system enhancements will facilitate the resolution of the negative balances. Again, due to the crossover in fiscal years, having a positive balance in the new fiscal year account compensates for the negative balance in one year.

8. PRIOR FINDING PARTIALLY RESOLVED: The university did not timely return undisbursed Federal Family Education Loan (FFEL) funds to lenders.

- **St. Cloud State University should return undisbursed FFEL funds to lenders within ten days as required by federal regulations.**

We agree with the finding. We are now compliant with the regulation, and have redesigned our computer system to send these funds back through electronic funds transfer. The new system is due to be tested and installed later this summer.

9. The university has not resolved differences resulting from transition to a new computerized loan system and has not reconciled it to MnSCU accounting.

- **St. Cloud State University should update the unrecorded student loans totaling $35,564 into the LMS loan system.**

We agree with the finding. This is, once again, an issue that arose during systems transition. The data transfer between the legacy system and the new LMS produced incorrect data. Initially, the difference was over $65,000. Note that this is a miniscule percent of the total loans awarded suggesting that the exposure to loss for the university is minimal. We continue to work on ensuring all loans have been reconciled. The work to complete accounting for our transition should be completed by this summer.

- **The university should reconcile LMS loan balances, new loans issued, and loan repayments and cancellations to MnSCU accounting on a periodic basis to ensure the accuracy of both systems.**

We agree.

10. The university has not made timely interest allocations to the federal Perkins loan account.

- **St. Cloud State University should determine the actual amount of interest earnings owed to the Perkins loan account for prior years and transfer that amount. More timely interest allocations should be made in the future.**

The university made this determination prior to the current audit. We provided the assessment after we discovered our error and the repayment is in process.

11. St. Cloud State University did not collect money for the initial inventory provided to its new bookstore operator and has not received any commissions due.

- **St. Cloud State University should work with MnSCU legal counsel to resolve outstanding litigation with the former bookstore operator and to maximize recovery of funds in bankruptcy proceedings with the new bookstore operator.**

The university has been aware of the issues surrounding the bookstore provider since September. On October 27, 2000 the university began the process of attempted collection and voiding of the contract should that become necessary. St. Cloud State University is one of 93 campuses across the country involved in the bankruptcy proceedings. We have worked closely with the Attorney General and with Wallace's to monitor the circumstance and make the best of an unfortunate situation.

- **The university should ensure it collects commissions and other amounts due in a timely fashion, to avoid account delinquencies and defaults.**

The income contracts were reviewed with the Attorney General. Further, the university provided notice of non-payment on October 27, 2000 within thirty days of delinquency. This notice started the 90-day cure clause. The university has worked diligently with the Attorney General on the bankruptcy issue and is continuing to aggressively monitor the situation. The language in this section of the audit report creates an erroneous appearance about performance and diligence by the university and, in our view, should be substantially revised.

12. The university does not have formal policies providing management direction on spending its miscellaneous operating revenues.

- **St. Cloud State University should develop formal management policies for spending its miscellaneous commission revenue.**

We will formalize the historic practice.

- **The university should develop formal policies for allocating and spending its interest income revenue.**

We will formalize the historic practice.

13. PRIOR FINDING PARTIALLY RESOLVED: St. Cloud State University did not measure computer store financial results

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

We agree. The university substantially implemented the previous recommendations from the OLA including a measurement of cost and pricing decisions. We will continue to work on measuring computer store results.

14. PRIOR FINDING NOT RESOLVED: St. Cloud State University did not properly safeguard computer store receipts.

- **The St. Cloud State University computer store should immediately record all sales in its cash register when collected and promptly deposit receipts exceeding $250 on a daily basis.**

We disagree that the prior finding is "unresolved". The University did implement a procedure to deposit receipts in a timely manner. We agree, however, that there have been instances discovered where one employee has not followed new university procedures. We will train again all employees in the importance of following the procedure and making timely deposits.

With the exception of two, minor, language changes we find the audit to be accurate and fair. We take pride in the outcome of so thorough an audit. As this audit was intended, in part, to assure the new President about internal financial practices, we believe that President Saigo should rest assured that St. Cloud State University is well managed.

Sincerely yours,

/s/ Eugene A. Gilchrist

Eugene A. Gilchrist

cc: President Saigo
Vice Chancellor King
Mr. Asmussen
Mr. Burke
Mr. Loncorich

Mr. Ludwig