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STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

St. Cloud State University

Internal Control and Compliance Audit

July 1, 2007, through December 31, 2009

June 15, 2010 **Report 10-20**

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

June 15, 2010

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Dr. Earl H. Potter III, President
St. Cloud State University

This report presents the results of our internal control and compliance audit of St. Cloud State University for the period July 1, 2007, through December 31, 2009.

We discussed the results of the audit with St. Cloud State University on May 26, 2010. The audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Tim Rekow, CPA (Auditor-in-Charge), assisted by auditors Kayla Borneman, CPA, Chau Nguyen, Kathy Rootham, and Paul Thompson.

This report is intended for the information and use of the legislative Audit Commission and the management and board of the Minnesota State Colleges and Universities and St. Cloud State University. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 15, 2010.

We received the full cooperation of St. Cloud State University's staff while performing this audit.

James R. Nobles
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Table of Contents

Page

Report Summary 1

Overview 3

Objective, Scope, and Methodology 5

Conclusion 6

Findings and Recommendations 9

1. St. Cloud State University did not adequately assess its business risks or monitor the effectiveness of its internal controls 9

2. Prior Systemic Finding Not Resolved: St. Cloud State University did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions 10

3. St. Cloud State University and the Office of the Chancellor did not promptly intervene when the St. Cloud State University Foundation inappropriately claimed that it had secured the exclusive commercial rights to the university's athletic facilities and programs and contracted with a marketing firm to sell those rights 11

4. Prior Systemic Finding Not Resolved: St. Cloud State University did not adequately restrict employees' use of university-issued credit cards 13

5. St. Cloud State University lacked sufficient controls to ensure that it did not reimburse employees for questionable expenses 15

6. St. Cloud State University did not properly delegate authority to some of its employees to authorize contracts, purchase goods or services, make payments, and approve course fees 16

7. St. Cloud State University charged incorrect and unauthorized tuition rates and course fees to students 17

Page

8. St. Cloud State University did not adequately safeguard receipts at some of its campus operations 18

9. St. Cloud State University did not administer certain contracts in accordance with MnSCU policy 20

10. St. Cloud State University did not have contracts for some purchased services and did not comply with certain MnSCU policies and procedures when it obtained other purchased services 21

11. St. Cloud State University had not solicited bids for its banking services for over five years or formalized certain banking services 21

12. St. Cloud State University inappropriately retained not public credit card and checking account information in its auxiliary operation's financial records 22

13. Prior Systemic Finding Not Resolved: St. Cloud State University did not adequately manage equipment and sensitive asset inventories 23

14. Prior Finding Partially Resolved: St. Cloud State University did not prepare accurate financial statements for its computer store 24

15. The university did not always deposit certain receipts daily, as required by MnSCU policy 24

16. St. Cloud State University erroneously refunded tuition and fees to certain students 25

17. Prior Systemic Finding Not Resolved: St. Cloud State University did not always accurately account for faculty and administrator leave benefits 26

Comments on MnSCU Response to OLA Finding 1 29

Agency Responses 31

Report Summary

Conclusion

St. Cloud State University generally had adequate internal controls over its major financial activities, such as tuition and fees, employee salaries, and operating expenses.[1] These controls generally ensured that the university safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. However, the university had some control weaknesses and noncompliance in certain areas that have a high-risk for errors, including security access to financial systems, management of university-issued credit cards, and employee expense reimbursements.

For the items tested, St. Cloud State University did not comply with some legal provisions related to credit cards, employee expense reimbursements, delegation of authority, procurement, revenue and expense contracts, auxiliary operation receipts, tuition and fee rates, and leave benefits.

St. Cloud State University resolved 6 of the 7 prior audit findings relevant to this audit.[2] However, the university did not fully resolve prior audit Finding 13 related to its computer store operations. We repeat this finding as Finding 14. In addition, the university did not resolve four prior findings identified as MnSCU systemic issues in prior reports on other colleges, and we repeat these issues in Findings 2, 4, 13, and 17.[3]

Key Findings

- St. Cloud State University did not adequately assess its business risks or monitor the effectiveness of its internal controls. (Finding 1, page 9)

- Prior Systemic Finding Not Resolved: St. Cloud State University did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions. (Finding 2, page 10)

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[1] The audit scope did not include student financial aid.

[2] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 01-20, *St. Cloud State University*, issued April 26, 2001. The report contained 14 findings. We did not determine resolution of 4 of these findings because they related to financial aid, which was not in the scope of our current audit. We also did not determine resolution of 3 other findings because they were no longer relevant to the university's operations.

[3] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009. This report contained four systemic findings, which we define as an internal control or compliance weakness noted at a majority of colleges or universities that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

- St. Cloud State University and the Office of the Chancellor did not promptly intervene when the St. Cloud State University Foundation inappropriately claimed that it had secured the exclusive commercial rights to the university's athletic facilities and programs and contracted with a marketing firm to sell those rights. (Finding 3, page 11)

- Prior Systemic Finding Not Resolved: St. Cloud State University did not adequately restrict employees' use of university-issued credit cards. (Finding 4, page 13)

- St. Cloud State University lacked sufficient controls to ensure that it did not reimburse employees for questionable expenses. (Finding 5, page 15)

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

July 1, 2007, through December 31, 2009

Programs Audited

- Financial systems security access
- Tuition and fee revenues
- Auxiliary revenues
- Local bank accounts
- Personnel and payroll expenses
- Operating expenses
- Equipment purchases and inventory
- Relationship with the St. Cloud State University Foundation

St. Cloud State University

Overview

With over 20,000 students, St. Cloud State University is the largest member of the Minnesota State Colleges and Universities (MnSCU) system and the second largest university in Minnesota. St. Cloud State University offers more than 200 undergraduate and graduate programs in business, fine arts and humanities, social sciences, education, science, and engineering. Dr. Earl H. Potter III became the president of the university in 2007.

The MnSCU system is comprised of 32 state universities, community colleges, technical colleges, and the Office of the Chancellor. The MnSCU Board of Trustees appoints the chancellor and provides strategic direction and governance for the system.[4]

St. Cloud State University uses MnSCU's accounting system to process and record financial activities. St. Cloud State University uses the MnSCU accounting system to generate payments from the state treasury and account for money maintained outside of the state treasury in local bank accounts. St. Cloud State University uses local bank accounts to allow for greater flexibility in managing high-volume transactions for financial aid, student activities, and auxiliary operations.

St. Cloud State University finances its operations through the Office of the Chancellor's allocation of state appropriation and retention of its tuition and other receipts; together, these revenues determine the university's total authorized spending level. The authorized spending level is the basis for establishing spending budgets for various administrative functions and academic departments. The university's yearly audited financial statements provide additional information on the university's financial operations.[5]

Table 1 summarizes the university's financial activities for fiscal years 2008 and 2009.

[4] *Minnesota Statutes* 2009, 136F.06 and 136F.07.
[5] St. Cloud State University has yearly financial statements audited by a CPA firm.

Table 1
Revenues, Expenses, and Changes in Net Assets
Fiscal Years 2008 and 2009 (In Thousands)

	2008	2009
Operating Revenue[1]		
Student tuition and fees[2,3]	$ 75,768	$ 79,067
Room and board	19,827	20,518
Grants[4]	19,966	21,990
Other income	3,846	4,255
Total Operating Revenue	$119,407	$125,830
Nonoperating Revenue		
State appropriations[2]	$ 62,430	$ 64,410
Capital appropriations and grants[5]	9,142	10,749
Grants and donated capital assets	3,053	2,956
Other	1,225	913
Total Nonoperating Revenue	$ 75,850	$ 79,028
Total Revenue	$195,257	$204,858
Operating Expense[1]		
Salaries and benefits[6]	$129,670	$141,360
Supplies and services	39,297	41,099
Depreciation[7]	7,356	7,846
Financial aid	2,742	3,451
Total Operating Expense	$179,065	$193,756
Nonoperating Expense		
Interest expense	$1,876	$1,818
Grants to other organizations	495	198
Loss on disposal of capital assets	183	11
Total Nonoperating Expense	2,554	2,027
Total Expense	$181,619	$195,783
Increase in net assets	$ 13,638	$ 9,075
Net assets, beginning of year	$125,192	$138,830
Net assets, end of year	$138,830	$147,905

Footnotes prepared by the Office of the Legislative Auditor to provide further explanation for revenue and expense amounts.

[1]Operating revenue and expense activities are changes in net assets that generally resulted from payments received for providing services and payments made for services or goods received.
[2]Tuition revenue increased in fiscal year 2009 mainly as a result of a three percent increase in the tuition rate.
[3]The university held most funds in the state treasury. The university also used two local bank accounts to process financial aid, student payroll, auxiliary, and student activities and had four foreign bank accounts to facilitate study abroad programs.
[4]The university participated in several grant programs. The largest federal grant programs included Pell, Supplemental Educational Opportunity Grant, and Federal Work Study.
[5]MnSCU was responsible for paying one-third of the debt service for certain general obligation bonds sold for capital projects, as specified in authorizing legislation. MnSCU allocated to individual colleges and universities the cash, capital appropriation revenue, and related debt based on capital project expenses.
[6]Compensation and benefits increased about nine percent between fiscal years 2008 and 2009, mainly due to employees' six percent annual salary increase.
[7]Capital assets were depreciated or amortized on a straight-line basis over the estimated useful life of the assets.

Source: St. Cloud State University Annual Financial Report for the years ended June 30, 2009 and 2008, Management's Discussion and Analysis.

Objective, Scope, and Methodology

Our audit included the material financial activities of St. Cloud State University, including security over access to computerized accounting applications, tuition and fee revenues, auxiliary revenues, local bank accounts, personnel and payroll expenses, operating and administrative expenses, equipment purchases and inventory, and the university's relationship with the St. Cloud State University Foundation. However, the scope did not include student financial aid. The audit examined transactions for fiscal years 2008, 2009, and 2010 through December 31, 2009.

Our audit objective was to answer the following questions:

- Were internal controls at St. Cloud State University adequate to ensure that the university safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did St. Cloud State University comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

- Did St. Cloud State University resolve prior audit findings,[6] including those findings identified as MnSCU systemic findings in audits of other colleges?[7]

To answer these questions, we interviewed university staff to gain an understanding of the controls related to St. Cloud State University's financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we

[6] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 01-20, *St. Cloud State University,* issued April 26, 2001. The report contained 14 findings. We did not determine resolution of 4 of these findings because they related to financial aid, which was not in the scope of our current audit. We also did not determine resolution of 3 other findings because they were no longer relevant to the university's operations.

[7] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009. This report contained four systemic findings, which we define as an internal control or compliance weakness noted at a majority of colleges or universities that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

selected a sample of financial transactions and reviewed supporting documentation to test whether the university's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

We used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate university controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[8] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the Department of Management and Budget and MnSCU's internal policies and procedures as evaluation criteria for compliance.

Conclusion

St. Cloud State University generally had adequate internal controls over its major financial activities, such as tuition and fees, employee salaries, and operating expenses. These controls generally ensured that the university safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. However, the university had some control weaknesses and noncompliance in certain areas that have a high-risk for errors, including security access to financial systems, management of university-issued credit cards, and employee expense reimbursements.

For the items tested, St. Cloud State University did not comply with some legal provisions related to credit cards, employee expense reimbursements, delegation of authority, procurement, revenue and expense contracts, auxiliary operation receipts, tuition and fee rates, and leave benefits.

[8] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

St. Cloud State University resolved 6 of the 7 prior audit findings relevant to this audit.[9] However, the university did not fully resolve prior audit Finding 13 related to its computer store operations. We repeat this finding as Finding 14. In addition, the university did not resolve four prior findings identified as MnSCU systemic issues in prior reports on other colleges, and we repeat these issues in Findings 2, 4, 13, and 17.[10]

The following *Findings and Recommendations* section of the report identifies the internal control weaknesses and noncompliance concerns.

[9] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 01-20, *St. Cloud State University,* issued April 26, 2001. The report contained 14 findings. We did not determine resolution of 4 of these findings because they related to financial aid, which was not in the scope of our current audit. We also did not determine resolution of 3 other findings because they were no longer relevant to the university's operations.

[10] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009. This report contained four systemic findings, which we define as an internal control or compliance weakness noted at a majority of colleges or universities that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

Findings and Recommendations

Finding 1

St. Cloud State University did not adequately assess its business risks or monitor the effectiveness of its internal controls.

The university did not effectively assess its risks related to important operational and finance-related legal compliance areas, including computer access to its accounting applications, tuition and fee revenues, auxiliary revenues, local bank accounts, personnel and payroll expenses, operating and administrative expenses, equipment purchases and inventory, and the relationship with the St. Cloud State University Foundation. Further, the university did not have a comprehensive plan to monitor the effectiveness of its internal controls.

St. Cloud State University had documented its risks and internal controls over a number of financial cycles related to financial reporting. However, it had not extended its risk assessment to include other important risks associated with its operational and compliance responsibilities. The university was aware of certain risks, had many control activities in place, and performed selected internal control monitoring functions.

A comprehensive control structure has the following key elements:

- Personnel are trained and knowledgeable about finance-related legal provisions and applicable policies and procedures.

- Management identifies risks associated with finance-related legal provisions and develops policies and procedures to effectively address the identified risks.

- Management continuously monitors the effectiveness of the controls, identifies weaknesses and breakdowns in controls, and takes corrective action.

- Management focuses on continual improvement to ensure an acceptable balance between controls and costs.

Findings 2 through 17 identify deficiencies in the university's internal control procedures and specific noncompliance with finance-related legal requirements that were not prevented or detected by the university's internal control structure. These deficiencies created a risk of error or noncompliance not being prevented or detected. It is likely that the university will continue to have noncompliance and weaknesses in internal controls until it operates within a comprehensive internal control structure that includes operational and compliance risks in addition to financial reporting risks.

Recommendation

- *The university should frequently review and clearly document its risks, internal control activities, and monitoring functions related to its operational and compliance responsibilities.*

Finding 2

Prior Systemic Finding Not Resolved:[11] St. Cloud State University did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

The university allowed employees to have unnecessary or incompatible access to accounting systems without defining, documenting, or monitoring the effectiveness of mitigating controls. This created a high risk that error or fraud could occur without detection.

In its response to this prior systemic issue, the Office of the Chancellor stated that it was in the process of making improvements to assist colleges in identifying and eliminating unnecessary access to its computer system. It also stated that the colleges would refine and strengthen their current mitigating and detective controls and would clearly articulate these controls in writing. However, St. Cloud State University allowed employees the following unnecessary access to its financial system and incompatible access without effective, documented mitigating controls:

- Ten employees had incompatible access to the accounts receivable function, including cashiers who handled cash and could also adjust, waive, or defer student receivable balances.
- Five employees had incompatible access to the accounts payable function. Incompatible access to accounts payable functions included employees who initiated purchases and could also pay vendors.
- In addition, the university had six former and two current employees with unnecessary access to various business systems. These employees did not need this access to the business systems to complete their job duties.

While St. Cloud State University had certain mitigating controls, it had not documented or monitored the performance of those controls. A well-designed

[11] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 1).

plan to address the risks created by allowing incompatible access should include written procedures that identify the specific employees who have incompatible access; the controls designed to mitigate the risks from that incompatible access and an explanation of how the controls mitigate the risks; the frequency and steps involved in performing the mitigating controls; the individual(s) assigned to perform the mitigating controls; and the documentation necessary to monitor the performance of the controls.

Separation of incompatible duties is a fundamental internal control. It typically involves the separation of authorization, custody, recordkeeping, and reconciliation duties among different people. Separation of incompatible duties is a *preventive control* designed to prevent the occurrence of errors or fraud. When separation of incompatible duties cannot be achieved, it increases the risk that errors or fraud could occur. To mitigate that risk, *detective controls* detect whether errors or fraud have occurred.

Recommendations

- *The university should eliminate employee access to incompatible accounting system functions or document and monitor effective detective controls to mitigate the risks of incompatible access. The university should delete employees' access to functions determined to be unnecessary based on job responsibilities.*

- *The university should continue to work with the Office of the Chancellor to identify risks and design effective detective controls that address access incompatibilities.*

Finding 3

St. Cloud State University and the Office of the Chancellor did not promptly intervene when the St. Cloud State University Foundation inappropriately claimed that it had secured the exclusive commercial rights to the university's athletic facilities and programs and contracted with a marketing firm to sell those rights.

St. Cloud State University and Office of the Chancellor did not take prompt action to limit MnSCU's legal and financial exposure when the St. Cloud State University Foundation exceeded the scope of its authority. The St. Cloud State University Foundation is one of more than 40 foundations within the MnSCU system formed to support a specific college or university. Each foundation is a private, nonprofit organization governed by a board of trustees with fiduciary responsibility for the foundation's activities. While legally separate, foundations work closely with the college or university they were formed to support. Most operate from a campus facility and receive staff support from college and university personnel. In addition, MnSCU-affiliated foundations operate under contracts governed by policies established by the MnSCU Board of Trustees and are subject to oversight by the Board's Office of Internal Audit and MnSCU's Office of the Chancellor.

In December 2009, the St. Cloud State University Foundation signed a contract with a marketing firm based on the foundation's claim that it had secured the exclusive commercial rights for the university's athletic facilities and programs and that the third-party marketing firm could market and sell those rights.[12] When St. Cloud State University and Office of the Chancellor's officials became aware of the marketing agreement in early 2010, they did not immediately intervene. They did not ensure that the foundation notified the marketing firm that the agreement was not valid because the foundation did not have the authority to assign the university's commercial rights. Without this intervention, the marketing firm may enter into subsequent agreements with sponsors that could inappropriately bind the university or result in legal action against the university. Although they were concerned that the foundation had entered into the agreement with the marketing firm before finalizing the foundation's responsibilities for fundraising related to the National Hockey Center,[13] the university and the Office of the Chancellor felt that the foundation's legal autonomy from the university limited their ability to address the issue. We think this is an overly restrictive view of the university's and MnSCU's options and responsibilities. University and/or MnSCU officials should have immediately advised the foundation that it had entered into a contract based on an inappropriate claim of the university's commercial rights and requested that the foundation revise or void the contract with the marketing company.

Recommendation

- *St. Cloud State University and the Office of the Chancellor should provide adequate oversight of the St. Cloud State University Foundation to ensure it does not expose the university and/or MnSCU to inappropriate legal liability.*

[12] Commercial rights included naming rights, pouring rights, premium seating, advertising signage, sponsorships and other commercial revenue generating opportunities. These commercial rights pertained to the university athletic facilities, including the hockey arena, basketball arena, and football stadium and the university sports programs, including the hockey team, basketball team, and football team.

[13] St. Cloud State University and Office of the Chancellor officials were working with the Office of the Attorney General to finalize the agreement between the university and its foundation which would define the specific fundraising expectations. As of May 2010, they had not executed this agreement.

Prior Systemic Finding Not Resolved:[14] **St. Cloud State University did not adequately restrict employees' use of university-issued credit cards.**

Finding 4

University employees used credit cards to incur significant travel and other costs totaling around $1.3 million, in violation of various MnSCU and university policies and procedures. MnSCU established policies and procedures to limit the employees' use of credit cards.[15] The policy restricts the purchase of inappropriate items and ensures credit card purchases comply with MnSCU's other purchasing and special expense policies and procedures. St. Cloud State University supplemented the MnSCU policy with its own, more specific credit card policy. Both the MnSCU credit card policy and the St. Cloud State University credit card policy prohibited using the credit card for certain travel costs.

Despite these policies and procedures that prohibit the use of credit cards for certain travel costs, approximately 50 employees, as of March 2010, had university-issued credit cards designated as "travel" cards. The university created a separate process for issuing travel cards to employees and processing the payments. The university did not establish policies to define the allowable uses of the cards and did not implement controls to monitor employees' use to ensure that purchases were appropriate, necessary, and complied with MnSCU and university policies and procedures.

The university's use of these travel cards resulted in noncompliance with credit card, travel, purchasing, and payment policies and procedures and some duplicate, inappropriate, or unreasonable purchases, as explained in the following:

- Nine of the 83 travel card transactions we tested did not contain adequate documentation to substantiate the nature of about $2,200 of purchases. Examples of purchases without supporting documentation included about $1,100 for sports and entertainment, $200 incurred at a florist, and various on-line purchases, some up to $600, using PayPal.[16] Without the supporting documentation, the university was unable to show that these purchases were appropriate and reasonable.

- The university paid for $103 of travel costs that it also had directly reimbursed to 1 of 11 employees we tested. MnSCU policy prohibits the use of credit

[14] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 4).
[15] MnSCU Procedure 7.3.3 – Credit Cards. Part 6, lists items not allowed to be purchased with credit cards (including items for personal use), individual meals and other travel expenses, entertainment or recreation items, and alcoholic beverages. The St. Cloud State University Purchasing Policy also details items that are not allowed for purchase, including items for individual meals and other travel expenses, recruiting expenses, and any expenses requiring a special expense form.
[16] PayPal is an e-commerce business allowing payments and money transfers to be made through the Internet.

cards for travel costs partly because of the increased risk that employees could also be reimbursed inadvertently.

- Forty-seven of 68 transactions we tested, totaling $32,236, were not allowable according to the university's credit card policy,[17] and 50 of the transactions, totaling $28,669, were not allowable per university travel policy. The unallowable credit card purchases included food, recruiting, hotels, sporting events, and other travel-related expenses. The unallowable travel purchases included registrations, memberships, recruiting, sporting goods, sporting events, movies, and golf team expenses.

- Six of the 68 transactions we tested were meals for students and employees that exceeded applicable meal reimbursement limits by $1,788 and did not have authorization as special expenses.

- University employees incurred over $100,000 for food and about $13,000 for hotel costs in the St. Cloud area from March 2008 through December 2009. Because the employees were not in travel status, these types of costs were special expenses. MnSCU policy requires that special expense must have documented advance approval. The university had no evidence of advance approval for these transactions.

- The university incorrectly recorded all purchases made with travel cards as travel expenses, even though some of the purchases did not relate to travel. For example, in the transactions we tested, the university incorrectly recorded $46,000 of supplies, living expenses, and catering expenses as travel.

- University employees had not obtained prior authorization for any of the ten out-of-state travel card transactions we tested.[18]

Recommendations

- *The university should improve its oversight of purchases made by employees with university-issued credit cards to ensure compliance with credit card and other policies and procedures.*
- *The university should review credit card payments and employee reimbursements to determine the scope of duplicate payments and recover these overpayments from employees.*
- *The university should ensure that it correctly codes credit card purchases in the accounting system.*

[17] The St. Cloud State University Travel/Business Expenses policy details allowable travel to include meal allowances, lodging expenses, vehicle expenses, airfare expenses, and expense report requirements.
[18] MnSCU Procedure 5.19.3, Part 3, requires written prior approval for all expenses related to out-of-state travel.

St. Cloud State University lacked sufficient controls to ensure that it did not reimburse employees for questionable expenses.

Finding 5

The university did not have adequate internal controls to ensure that it only reimbursed employees for appropriate, documented, and necessary expenses. The university had the following weaknesses in its reimbursements to employees for expenses they incurred:

- The university did not have policies to define the allowable types or limits of purchases of nontravel-related items, such as office or classroom supplies, employees could incur with personal funds and then request reimbursement from the university. Without specific policies that established guidelines and limits, employees could purchase and be reimbursed for items that should have been subject to the controls of the university's regular procurement process. As a result, the university reimbursed one employee $1,900 for computer hard drives and another employee $103 for trapping supplies. Although the items appeared to have been for legitimate university use, the purchases circumvented standard procurement procedures and encumbrance of funds.

- The university reimbursed nearly $3,600 to 2 of 21 employees we tested for special expense transactions that were not approved in advance, as required by MnSCU procedure.[19] These transactions were for supplies, food, beverages, and related items for groups or for university events.

- The university did not diligently require employees to provide documentation to support reimbursement requests. The university allowed 4 of 21 employees we tested to submit affidavits in place of receipts for $6,696 of expenses they incurred. Although this is allowable in cases where employees did not retain documents to support costs they incurred, it should be a rare occurrence.[20] The prevalence of affidavits indicates that the university did not hold employees sufficiently accountable for reimbursed costs. For example, one employee used an affidavit to support $5,759 of missing receipts for a study abroad trip.

- The university inappropriately reimbursed $8,593 to 6 of 12 employees we tested who incurred out-of-state travel expenses.[21] The reimbursements were inappropriate because the employees did not have documentation of advance approval before incurring the expenses, as required by MnSCU procedure. The university's out-of-state travel totaled over $3,350,000 during fiscal years 2008, 2009 and 2010, through December 31, 2009.

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[19] MnSCU Procedure 5.20.1 requires advance approval of special expenses.

[20] MnSCU Procedure 5.19.3, Part 10 Travel Management, states that a traveler may be allowed to file an affidavit in lieu of a receipt if the original receipt is lost or a receipt is not obtained.

[21] One of the six employees was the university president who reports directly to the MnSCU Chancellor.

Recommendations

- *The university should develop policies to establish guidelines and limits for employee expense reimbursement of nontravel-related purchases.*

- *The university should improve controls and compliance over travel-related employee expense reimbursements to ensure that expenses are approved and documented in accordance with MnSCU policy.*

Finding 6

St. Cloud State University did not properly delegate authority to some of its employees to authorize contracts, purchase goods or services, make payments, and approve course fees.

For the transactions we reviewed, St. Cloud State University allowed nine employees to bind the university to a legally enforceable obligation without the appropriate delegation of authority, as explained in the following:

- The university's athletic and related sports departments allowed three employees to sign numerous revenue contracts without appropriate delegated authority. Revenue contracts included athletic advertising, promotional contracts, and ice time at the National Hockey Center. Athletic and sports employees who signed these contracts either did not have any delegated authority or did not have authority to sign revenue contracts.

- The university allowed four employees to make purchases up to $100,000 using credit cards, although their delegated purchase authority was $5,000.

- One employee entered into contracts for services totaling $28,032 without proper authority.

- The university's associate vice president of administrative affairs approved special course fees without delegated authority from the president to provide this approval.

MnSCU policy required a formal delegation of authority for employees to perform certain operations.[22] Each university president is accountable for assuring proper delegation of authority to employees.

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[22] MnSCU Procedure 1A.2.2 - Delegation of Authority.

Recommendations

- *The university should delegate appropriate authority to staff that enter into significant obligations with vendors.*

- *The university should establish controls to assure staff do not perform transactions that are not formally delegated.*

St. Cloud State University charged incorrect and unauthorized tuition rates and course fees to students.

Finding 7

The university charged some students incorrect or unapproved rates for tuition and fees.[23] Tuition and fee discrepancies included the following:

- The university collected about $3,372,000 by charging students a facility assessment fee ($3.85 per credit), which the MnSCU Board had not reviewed or approved annually.[24] The board approved a fee up to $5 in 2002 to pay off the bonds used for campus construction projects. However, the university and the board have not reviewed the appropriateness of the fee since 2002.

- The university inappropriately collected nearly $400,000 because it charged a higher tuition rate, without MnSCU Board approval, to some students attending various off-campus classes.[25]

- The university inappropriately collected about $557,000 because it charged students some room and board rates that the MnSCU Board had not approved. The university charged unapproved rates for early check-in, extended stay, and summer housing.

- The university overcharged more than 5,300 students a total of nearly $200,000 because it did not limit the amount it charged for student union fees. Students paid this fee on a per credit basis; however, the university continued to charge students after they reached the maximum amounts of $144, $146.88, and $156.48 for fiscal years 2008, 2009, and 2010, respectively.

- The university undercharged some nonresident students about $75,000 because it charged the resident tuition rate to students who registered for some continuing studies courses, regardless of any reciprocity agreements and residency status. The university should have charged this rate only to students who were Minnesota residents.

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[23] MnSCU Policy 5.11 – Tuition and Fees details that the Board of Trustees shall approve the tuition structure for all colleges and universities.

[24] The facilities assessment fee funded various construction projects, including a student recreation center, multi-purpose stadium with a domed roof, and renovations at the student union.

[25] St. Cloud State University offers two off-campus programs: (1) Anoka Ramsey and Ridgewater Community Colleges Portal Project, and (2) Teacher/Administrator Preparation Program at North Branch School District.

- The university undercharged some graduate students about $7,800 because it did not charge the $289.85 graduate tuition per credit rate approved by the board; it erroneously charged $289 per credit.[24]
- The university undercharged new students from Wisconsin because it charged all Wisconsin students the returning student rate. The Wisconsin reciprocity agreement allowed the university to charge new students $180.15 and 185.55 per credit for fiscal years 2009 and 2010, respectively, and to charge returning students a lower rate of $175.53 and 182.36 per credit for fiscal years 2009 and 2010, respectively.
- The university also incorrectly assessed the health service fee for fiscal year 2008. The approved rate was $4.22 per credit but the university assessed $4.29 per credit instead.

The university did not have effective internal controls to ensure that it charged students accurate, allowable, and authorized rates for tuition and fees. Effective controls could include a periodic verification that the rates used to determine tuition and fee charges were approved by the board and accurately entered into MnSCU's registration system.

Recommendations

- *The university should establish controls to ensure that it accurately charges students tuition rates and fees approved by the MnSCU Board of Trustees.*
- *To the extent possible, the university should adjust students' accounts for the inaccurate tuition and fee charges.*

Finding 8

St. Cloud State University did not adequately safeguard receipts at some of its campus operations.

The university did not adequately control nearly $18 million of receipts collected at the computer store, student union's recreation center, Copies Plus, Campus Card Office, public safety parking office, the National Hockey Center's business and ticket offices, and Halenbeck Hall's student recreation and ticket center office. The university had the following weaknesses in the receipt collection processes we tested:

- The business services office allowed each receipt collection site to establish its own deposit process and documentation requirements. The university increased the risk that errors or irregularities could occur without detection by not having a standardized receipts collection process.

- The university lacked adequate documentation, such as cash register tapes and deposit forms, to support the accuracy and completeness of its daily deposits. For example, the parking office did not retain deposit forms and register tapes to support over $800,000 of parking ramp and lot receipts. It discarded this documentation after it counted the receipts and deposited them with the business services office. In addition, the Campus Card Office and the National Hockey Center's ticket office generally sent receipt documentation to the business services office, but the business office did not always retain the documentation. As a result, the university lacked documentation to support two of ten deposits we tested for the Campus Card Office and seven of ten deposits we tested for the National Hockey Center's ticket office.

- The university did not establish accountability for transactions because it allowed cashiers at the computer store, cashiers at the student union's recreation center, Copies Plus, the Campus Card Office, and the National Hockey Center's ticket office to share cash register drawers. The university also did not require cashiers to separately log into cash register sessions with unique user accounts. Requiring cashiers to maintain separate cash drawers and separately log into the cash registers are important internal controls that allow management to hold cashiers accountable for transactions they record and for cash shortages in their cash drawers. It is essential to establish accountability for transactions to resolve questions about specific transactions or discrepancies between the accounting records and bank deposits. These weaknesses created an environment that provided an opportunity for fraud.

- Some of the receipt collection sites we tested did not adequately secure receipts before deposit. One location locked its daily receipts in the cash register and, at times, allowed several days' receipts to accumulate before deposit. Although the location was locked during off-hours and weekends, the office's sliding glass door could allow easy access. In addition, one collection site left its cash register's drawer open because it was broken and would not open if it was closed.

- The receipt locations we tested did not always document or independently review and authorize sale refunds and void transactions. For example, the computer store did not have documentation to support $8,688 of refunds and voids for 11 of 30 days we tested. In addition, staff at the National Hockey Center's business office and ticket office, student union's recreation center, Copies Plus, and Campus Card Office told us that they did not document or require independent authorization of refunds or voided transactions. Three of the ten days we tested for the National Hockey Center's ticket office had undocumented refund and void transactions ranging from $245 to $345. Independent authorization and documentation for voids and refunds is a standard internal control to ensure that these negative receipt transactions were necessary and accurate.

Recommendation

- *The university should establish effective internal controls for its receipt collection sites to ensure that it retains documentation to support deposits, establishes accountability for transaction processing, adequately safeguards receipts before deposit, and sufficiently documents and independently authorizes refunds and voided transactions.*

Finding 9

St. Cloud State University did not administer certain contracts in accordance with MnSCU policy.

The university violated MnSCU policy when it did not obtain approval from the Office of the Chancellor for four contracts that exceeded five years, including renewals.[26] In addition, the university had not obtained advance approval for two of those contracts, which exceeded $2 million, as required by MnSCU policy.[27] Those contracts included a 10-year $3,660,000 bookstore contract and a 10-year $2,155,000 vending services contract.

As of March 2010, the university did not receive any commissions for the period from August 2009 through December 2009 from the vendor who provided vending services under the terms of a contract that expired in August 2009. For one month while the contract was in effect, the university received nearly $6,000 in commission for the vending services. The university entered into a new contract with a different vendor in January 2010.

Recommendations

- *The university should ensure that it executes contracts within the limitations of MnSCU policies and that it obtains required approvals from the Office of the Chancellor.*

- *The university should pursue payment of the commission revenue it is owed from the vending service provider.*

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[26] MnSCU Policy 5.14, Procurement and Contracts, details that contracts shall not exceed five years, including renewals, unless otherwise provided for by law or approved by the chancellor or the chancellor's designee.

[27] MnSCU Policy 5.14, Procurement and Contracts, also requires that the Board of Trustees approve in advance certain contracts, including amendments, with values greater than $2,000,000. In March 2010, the board amended this policy to increase the contracts approval provision to $3,000,000.

Finding 10

St. Cloud State University did not have contracts for some purchased services and did not comply with certain MnSCU policies and procedures when it obtained other purchased services.

For fiscal years 2008 and 2009, the university did not enter into a contract with the provider of cable services for its residence halls; it paid the cable service provider about $380,500 for these services. MnSCU does not have a policy that defines for colleges and universities when a contract for purchased services is necessary and the scope of authority they have without approval from the Office of the Chancellor. In contrast, MnSCU's policy for professional/technical contracts limits colleges and universities approval of those contracts at $100,000.

Also, the university executed three contracts we tested using the vendor's contract forms rather than standard MnSCU contract forms without obtaining approval from the Office of the Chancellor to use a nonstandard form. These contracts included $28,032 for dorm movie services, $3,000 for music services, and $2,000 for a sporting event.

In addition, the university entered into numerous library license agreements for research and other subscription services. Although MnSCU policies did not require contracts for these services, the university entered into contracts prepared by the vendor. MnSCU's procedure requires that contracts must be on forms approved by the Office of the Chancellor to assure that they include all state-required contract language, and any modifications of the forms or use of nonstandard forms must be approved by MnSCU system's legal counsel and approval of the vice chancellor-chief financial officer.[28]

Recommendations

- *The university should comply with MnSCU policies and ensure it obtains appropriate Office of the Chancellor approvals for any modified or nonstandard contract forms.*
- *The university should work with its general counsel to determine appropriate forms to use for subscription services.*

Finding 11

St. Cloud State University had not solicited bids for its banking services for over five years or formalized certain banking services.

The university did not bid out its general banking, fraud management, electronic funds transfer, and foreign banking services for over five years. Although the university negotiated similar terms to an existing MnSCU banking contract, it did

[28] MnSCU Procedure 5.14.2.

not bid out for these services in accordance with MnSCU procedure.[29] As a result, the university could not ensure that the interest it earned and the fees it paid for these services were reasonable and competitive with other banks. MnSCU's banking and investment procedure requires universities to rebid their local banking relationships at least every five years.

In addition, the university did not have written agreements for accounts it had at banks in England and Germany. The university used these long-standing accounts for its study-abroad programs. Although the policy does not require that the university have written agreement with its banks, it is a good business practice to formalize the terms and expectations of the relationships.

Recommendations

- *The university should solicit bids for its banking needs in compliance with MnSCU policy.*
- *The university should formalize its banking relationships with written contracts.*

Finding 12

St. Cloud State University inappropriately retained not public credit card and checking account information in its auxiliary operation's financial records.

Certain university auxiliary operations retained paper documentation for transactions as far back as 2007 showing credit card numbers and expiration dates and copies of checks showing payees' bank account and routing numbers. Although the university securely stored these records, retaining this not public data created an unnecessary risk. Payment card industry standards require destruction of information revealing cardholder data when it is no longer needed for business or legal reasons.[30] If a fraud or identity theft occurred using this data, the cost to the university and the MnSCU system, both in terms of money and reputation, could be substantial.

The Office of the Chancellor undertook a system-wide review of credit card transaction management. Although a consultant provided guidance directly to the colleges and universities, the review did not result in any system-wide guidance to limit the collection of not public data, safeguard not public data that is needed for its business operations, and discard the data when no longer needed. The consultant's review at St. Cloud State University did not address the retention of paper documentation of credit card and bank account information.

[29] MnSCU Procedure 7.5.1.

[30] Payment Card Industry Data Security Standard, Version 1.2, July 2009 by the PCI Security Standards Council.

Recommendations

- *The university should destroy credit card and bank account data no longer needed for business operations.*
- *The Office of the Chancellor should provide guidance to limit the collection of not public data, safeguarding of not public data it does collect, and when and how to discard not public data no longer needed for business operations.*

Prior Systemic Finding Not Resolved:[31] St. Cloud State University did not adequately manage equipment and sensitive asset inventories.

Finding 13

The university did not have adequate controls for assets located at their computer store. The university's computer store sells computers and computer-related equipment to students and departments. Although the store employees conducted the required periodic inventories, the inventory documentation showed significant unresolved differences between the counts and the related inventory records. For fiscal year ended 2009, the discrepancies totaled about $16,000. Discrepancies included four computers on-hand that were not recorded in the inventory system and three computers in the inventory records that were not located. The documentation did not indicate that the computer store staff had done any follow-up work to resolve the discrepancies; however, staff adjusted the inventory records to correspond to the counted totals. The university's business services department reviewed the inventory but did not question the discrepancies or the adjustments to the inventory records.

Also, the university did not complete an annual physical inventory of all campus assets with an acquisition cost greater than $10,000, as required by MnSCU procedure.[32] Instead, the university conducted its physical inventory on a two-year cycle. The university increases the risk of misappropriation of assets when it does not conduct an annual physical inventory of these assets.

Recommendations

- *The computer store should ensure that it records all assets, purchases, and distributions in its inventory. Staff should investigate and resolve discrepancies between recorded and actual assets identified by physical inventory counts.*
- *The university should perform an annual inventory of campus assets with acquisition costs greater than $10,000.*

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[31] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 3).
[32] MnSCU Procedure 7.3.6, Capital Assets, requires a physical inventory of all assets with an acquisition cost or value of $10,000 or greater shall be completed on an annual basis.

Finding 14

Prior Finding Partially Resolved:[33] **St. Cloud State University did not prepare accurate financial statements for its computer store.**

The university's financial statements for its computer store included incorrect amounts due to computational errors. The computer store's financial statements showed operating income for fiscal years 2008 and 2009 as $189,605 and $233,077, respectively. However, after adjusting for the computational errors, we calculated an operating income of $304,517 and $176, 248, respectively.

The university operates the computer store similar to a private business. It purchases and resells computers and related equipment at marked-up prices to university departments and students. Management needs accurate and complete financial information to fully measure the computer store's profitability and make valid decisions about product pricing and cost allocations.

Recommendation

- *The university should prepare accurate financial statements for the computer store.*

Finding 15

The university did not always deposit certain receipts daily, as required by MnSCU policy.

The university did not always deposit receipts collected from its various campus locations such as its student union's recreation center, Copies Plus, and Campus Card Office, the public safety parking office, Halenbeck Hall's student recreation and ticket center office, and the National Hockey Center's business office and ticket office in a timely manner. State statute and MnSCU policy require daily deposits of receipts totaling $250 or more.[34] Specific errors included the following:

- The university did not deposit five of ten deposits we tested for Halenbeck Hall's recreation and ticket center office in a timely manner. The deposits were from 4 to 13 days late and ranged from $516 to $5,866.

- The university did not promptly deposit 13 of 18 deposits we tested for the National Hockey Center's business office and ticket office. The deposits were from 4 to 11 days late and ranged from $448 to $117,753.

[33] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 01-20, *St. Cloud State University,* issued April 26, 2001, Finding 13.
[34] *Minnesota Statutes* 2009, 16A.275, and MnSCU Policy 7.5, Part 2, Subpart C.

- The university also deposited one of ten student union's recreation center, Copies Plus, and Campus Card Office deposits we tested (for $950) eight days late.

In addition, the university's business services office did not always enter deposits into the accounting system in a timely manner. In one tested Halenbeck Hall's student recreation and ticket center office deposit, the university entered the transactions in the accounting system 27 days after the bank deposit. Also, for one National Hockey Center's ticket office receipt, the university recorded the transaction in the accounting system 26 days after the bank deposit. As a result, the accounting records did not reflect current, accurate information or agree to the bank records.

Recommendations

- *The university should implement procedures to ensure that it deposits all receipts that exceed $250 on a daily basis.*
- *The university should enter all receipts into the accounting system in a timely manner.*

Finding 16

St. Cloud State University erroneously refunded tuition and fees to certain students.

The university did not have adequate controls to ensure it accurately refunded tuition and fees to students. Seven of 22 tuition refunds we tested had errors of $4,349 out of around $22,000 tested.[35] For example, the university under-refunded one student $162 and over-refunded another student $1,256. Refunds are high-risk transactions because determination of the refund amount requires manual calculations and knowledge of up-to-date MnSCU refund criteria. The university made some errors because staff used schedules they had created to facilitate the calculation of the refund amount; however, the schedules were inaccurate and did not comply with MnSCU policy.[36] For example, some schedules included an extra business day in the calculation of the refund amounts, resulting in errors.

Recommendations

- *The university should accurately calculate tuition and fee refunds in accordance with MnSCU policy.*
- *The university should review its tuition and fee refunds and adjust the students' accounts for errors identified.*

[35] After identifying a problem with the university's refund schedules, we increased our sample to include more transactions that had a higher risk of error. This may have made the rate of error appear higher than it actually was.
[36] MnSCU Policy 5.12 - Tuition and Fee Due Dates, Refunds, Withdrawals, and Waivers.

Finding 17

Prior Systemic Finding Not Resolved:[37] St. Cloud State University did not always accurately account for faculty and administrator leave benefits.

St. Cloud State University did not have sufficient controls to ensure it properly recorded the amount of leave earned or taken by employees. While MnSCU's computerized system has some level of automation, it does not always accurately incorporate the leave provisions of the various bargaining agreements.[38] Errors in recording sick and vacation leave could result in employees receiving leave benefits not in compliance with the applicable bargaining agreements.

For the items we tested, St. Cloud State University had the following weaknesses in its administration of leave earned and taken:

- The university did not accrue any sick leave for faculty who taught summer 2007 courses. As a result, approximately 270 faculty members did not accrue about 2,500 sick leave hours they had earned.

- The university did not consistently reduce the recorded leave balances for terminated employees by the amounts liquidated as vacation payoffs and severance. Upon separation, the university either did not reduce the leave balance, reduced it by the amount of leave liquidated through vacation payoff or severance, or reduced the balance to zero. Inconsistent treatment of residual leave balances for terminated employees could lead to errors in financial reporting or reinstatement of leave balances if the person resumes employment with the university.

- The university inaccurately recorded sick leave earned for three of seven full-time faculty we tested. The university recorded 12 hours of sick leave for two faculty members who actually earned only six hours and did not record 12 hours of sick leave for another faculty member.

- The university did not reduce two of three administrator's leave balances for documented leave taken. The university had not reduced one administrator's leave balance for one day of sick leave taken and four days of vacation leave taken and had incorrectly recorded a half day of vacation leave taken as an addition to the employee's balance. The university had not reduced the other administrator's balance for two days of vacation leave taken.

[37] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 2).
[38] MnSCU universities maintain leave records for administrators and faculty in MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS).

- The university had errors for three of ten part-time faculty we tested.[39] The university reduced one part-time faculty member's sick leave balance by 22 hours but should have only deducted 20 hours based on the employee's part-time status. The university reduced another part-time faculty member's sick leave balance by four hours when it should have only deducted 3 hours based on the employee's part-time status. The university reduced a third part-time faculty member's leave balance by 2.4 hours when it should have only reduced it for 2 hours based on the employee's part-time status.

While some of these errors are not individually significant, the extent of the errors in the samples we tested showed that the errors were pervasive, increasing the risk that more significant errors could occur without detection. In its response to the prior audit issue, the Office of the Chancellor stated that it had taken significant steps to improve the leave accounting processes for colleges and universities; however, St. Cloud State University did not have effective controls to prevent, identify, or correct these types of errors.

Recommendations

- *The Office of the Chancellor should continue to work with the university to address leave accounting problems and consider improvements in the computerized leave module of the personnel system.*

- *The university should develop effective controls to ensure they accurately account for faculty and administrator leave benefits.*

- *The university should establish policies to consistently reduce leave balances for former employees at termination.*

- *The university should review leave accruals and usage and resolve any errors through adjustments to employee leave records or repayments to employees.*

[39] The Inter Faculty Organization Agreement for 2007-2009 explains that part-time faculty members shall accumulate sick leave on the basis of one day for each month employed pro rata multiplied by the fraction of the time employed. Use of sick leave for such faculty members shall be deducted on a pro rata basis according to the fraction of the time employed at the time of leave.

Comments on MnSCU Response to OLA Finding 1

The Office of the Legislative Auditor (OLA) has frequently complimented the leadership of Minnesota State Colleges and Universities (MnSCU) for supporting strong financial management and accountability throughout the MnSCU system. Our recent evaluation report, for example, highlighted the positive performance of the System Office in these areas. Therefore, we are surprised by MnSCU's position on the level of risk assessments and internal controls colleges and universities should be expected to achieve.

In responding to finding 1, MnSCU argues that colleges and universities should not be expected to implement risk assessments and internal controls beyond those necessary to prepare financial statements. We disagree, based not just on what we found in our recent audit of St. Cloud State University, but also from years of auditing a wide variety of organizations that prepare financial statements, including the State of Minnesota.

For the past thirty years, OLA has annually audited the controls used to prepare the state's financial statements. Yet, every year we also go back into the departments and agencies of state government to test internal controls more deeply. We often find weaknesses and have repeatedly recommended that state agencies need to develop, deploy, and monitor controls beyond those necessary to protect the state from material misstatements on its financial statements. It has never been suggested, until the response we received from MnSCU, that our expectations were unrealistic or unfounded.

The "professional standards" MnSCU references in its response are largely built on a private sector model and, therefore, rely on audited financial statements as the primary focus of accountability. That approach may be acceptable in the private sector, but it is not adequate in the public sector. Shareholders may only be concerned about financial transactions that materially affect a company's financial statements, but taxpayers clearly have higher expectations for how public organizations manage public money.

We understand that MnSCU has made a substantial commitment of resources to campus-based financial statements and financial statement audits as primary mechanisms of accountability at certain institutions. It is certainly within MnSCU's authority to continue with that approach and reject OLA's finding and recommendation. On the other hand, our report has presented MnSCU with an opportunity to modify its approach and further strengthen financial management at colleges and universities. We trust that opportunity will not be lost.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

June 10, 2010

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June 10, 2010

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

With this letter and the following letter from Ms. Laura King, Minnesota State Colleges and Universities Vice Chancellor for Finance, St. Cloud State University and the Office of the Chancellor convey our response to the audit report prepared by the Office of the Legislative Auditor on financial practice compliance and internal controls at St. Cloud State University. The University has an abiding interest in continuously improving its practices and making them more effective in serving students. We will use the constructive material in this audit to advance that interest.

We appreciate the substantial investment of resources (up to six OLA auditors over the course of five months) that allowed the team to conduct a broad and deep investigation of our operations. However, we are concerned that the findings and recommendations do not represent a deep understanding of the various types of funds that the University utilizes and the difference in appropriate expenditures from these fund types. For example, some of the findings appear to be based on the auditor's judgment about appropriateness without consideration for the of the wide range of activities at a comprehensive university ranging from providing support for traveling athletics teams to biological field research. Furthermore, the report reflects an expectation of internal control that greatly exceeds accepted standards. Moreover, assertions were made that standards were not maintained where, in fact, no standard exists and practice supports strong controls and effective operations. Finally, as noted in our detailed response, broad conclusions in several cases are supported by findings that do not reach commonly accepted standards of materiality. The overall, impact of the findings is thus at odds with the general conclusion that St. Cloud State is well managed.

Despite our concerns, we find significant value in the report. You may be assured, St. Cloud State University will address the key findings and recommendations responsibly.

Sincerely,

Earl H. Potter III

Earl H. Potter III
President

c: James H. McCormick, Chancellor, Minnesota State Colleges and Universities
Laura M. King, Chief Financial Officer, Office of the Chancellor

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STATE COLLEGES
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June 9, 2010

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

Dear Mr. Nobles,

The purpose of this letter is to provide a response to one of the findings in the recently completed audit of St Cloud State University, dated June 15, 2010. This response should be viewed in additon to the response provided by the university. You and I had an opportunity to discuss this finding prior to the publication of the audit. I had hoped that you would moderate your conclusion after our conversation. I regret the need to disagree so strongly with you in public when your office has been so helpful to the Minnesota State Colleges and Universities over time.

While we certainly agree with the value of sound internal controls, we believe the report fails to recognize that the university has conducted a cost effective risk assessment of its internal control structure. Indeed the first two sentences of your own conclusions found that controls were adequate over the university's major financial activities. The university has satisfied internal control expectations of COSO and Statement on Auditing Standards #109 as evidenced by the exemplary results of its annual financial statement audits. To recommend additional control risk assessments without regard to the cost of such efforts is unreasonable. Accordingly, we adamantly disagree with your first finding and consider it to be misleading and not based on professional standards.

The Minnesota State Colleges and Universities has developed and executed a comprehensive financial management and internal control program. MnSCU's in-depth management of financial and compliance risk accepts that there will be an acceptable level of errors and omissions and that these errors and omissions will be identified through the intentionally overlapping audit processes, and the System's continuous improvement program. Performance is monitored and steered by the Board's Audit Committee which seeks continuous improvements through policy, procedure and training. It is a very cost effective risk management program.

Management has designed a financial assurance program with significant financial and human resource commitments. The program is grounded in Board policy articulating standards of accountability for colleges and universities as well as the Office of the Chancellor. The Vice Chancellor – Chief Financial Officer has day to day responsibility for establishing the standards and the means of measuring compliance with the standards. This is done through the financial planning standards framework, provision of required training, and creation of monitoring and reporting methods in support of the Board's financial management standards.

The Board of Trustees, Chancellor and presidents have committed substantial resources of time and money to the audit program over the past ten years. There is no doubt that the results have shown steady, substantial improvement in the financial administration of the system and the colleges and universities. Progress since FY2000 is tremendous with unqualified audit opinions every year since 2001. The program was begun in 2000 in part to instill the discipline and rigor now found present in the financial procedures of the Office of the Chancellor and the colleges and universities.

A 2005 survey of other similar higher education systems produced very interesting information concerning the standards and practices of older, more established systems of higher education around the country. While external audit protocols are present in all the systems, MnSCU's current external program appears to provide deeper and more complex assurances then found almost anywhere else in the country.

It is our strong conclusion that your finding is without support in the professional standards, in the evidence of the audit work or in the results of the annual external audit undertaken by the university. It is further our judgment that we have in fact designed and do administer a comprehensive control structure at our colleges and universities which includes training, risk assessment, monitoring and continuous improvement.

Sincerely,

LMKing

Laura M. King
Vice Chancellor – Chief Financial Officer

c: James H. McCormick, Chancellor

Finding 1
St. Cloud State University did not adequately assess its business risks or monitor the effectiveness of its internal controls.

St. Cloud State University Response to Finding 1
The University disagrees with this finding. The University has clearly documented procedures, policies and guidelines for conducting the activities of the University. The University operates within the Policies, Procedures, and Guidelines established by Minnesota State Colleges and Universities, Board of Trustees. The University prepares annual financial reports which are audited by independent auditors. The University takes seriously its role to be a good steward of the state's resources and is very conscientious about the risk, internal control and monitoring activities necessary to accomplish this role.

Finding 2
Prior Systemic Finding Not Resolved: St. Cloud State University did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

St. Cloud State University Response to Finding 2
The University concurs with this finding. For those security incompatibilities, the University will review and determine if it can separate responsibilities and for those areas the University cannot, mitigating review and documentation will be prepared.

Steven Ludwig, Vice President for Administrative Affairs is responsible for implementation of this response and will have completed a security review of access by June 30, 2011.

Finding 3
St. Cloud State University and the Office of the Chancellor did not promptly intervene when the St. Cloud State University Foundation inappropriately claimed that it had secured the exclusive commercial rights to the University's athletic facilities and programs and contracted with a marketing firm to sell those rights.

St. Cloud State University Response to Finding 3
The University agrees that more prompt intervention could have occurred and will be alert for events in the future. However, the University does not believe, in this case, the University was ever exposed to any sort of significant loss.

Steven Ludwig, Vice President for Administrative Affairs is responsible for the review of University/Foundation activities on an ongoing basis.

Finding 4
Prior Systemic Finding Not Resolved: St. Cloud State University did not adequately restrict employees' use of University-issued credit cards.

St. Cloud State University Response to Finding 4
The University does not entirely agree with the detail of the activity described in this finding. The activities listed under this finding are legitimate University business and proper documentation was available for many of the items. The University believes the difference of opinion regarding what was sufficient documentation was

caused by the level of understanding of University business activities. The University will review the criteria for appropriate business activity documentation.

Jeff Wagner, Director of Business Services, is responsible for implementation of this response and will have completed the review by June 30, 2011.

Finding 5
St. Cloud State University lacked sufficient controls to ensure that it did not reimburse employees for questionable expenses.

St. Cloud State University Response to Finding 5
The University does not entirely agree with the detail of the activity described in this finding. A number of the items identified are repetitive of those in Finding 4. A number of the items listed reference "agency" accounts—those accounts for which the University is merely custodian of the funds for entities such as student groups at the University, much like a bank. As a result, the requirements are not as stringent as funds allocated through the state. The University will work with the Office of the Chancellor to better define the University's role regarding those funds. The use of affidavits, particularly in clarifying information on receipts in a foreign currency, are appropriate and within the Minnesota State Colleges and Universities policies and procedures. The University will review the record keeping regarding prior outstate travel approval as it is currently maintained with the supervisor of the employee for the IFO and MSUAASF bargaining unit employees.

Jeff Wagner, Director of Business Services, is responsible for implementation of this response and will have completed the review by June 30, 2011.

Finding 6
St. Cloud State University did not properly delegate authority to some of its employees to authorize contracts, purchase goods or services, make payments, and approve course fees.

St. Cloud State University Response to Finding 6
The University concurs and will proceed to implement the new Delegation of Authority policy and procedures recently implemented by the Minnesota State Colleges and Universities.

Steven Ludwig, Vice President for Administrative Affairs, is responsible for implementation of this response and will have completed the review by December 31, 2010.

Finding 7
St. Cloud State University charged incorrect and unauthorized tuition rates and course fees to students.

St. Cloud State University Response to Finding 7
The University concurs with establishing controls to insure the fees and rates are appropriately approved by the Board of Trustees. The University will work with the Office of the Chancellor to better identify which student housing fees charged should be reported to the Board of Trustees. The University does not agree that the student's accounts should be adjusted. All tuition rates and fee rates have been appropriately submitted to the Board of Trustees for Fiscal Year 2011.

Steven Ludwig, Vice President for Administrative Affairs, is responsible for implementation of this response and will review with the Office of the Chancellor, the student housing rates and fees by December 31, 2010.

Finding 8
St. Cloud State University did not adequately safeguard receipts at some of its campus operations

St. Cloud State University Response to Finding 8
The University concurs with this recommendation.

Steven Ludwig, Vice President for Administrative Affairs, is for this responsible for implementation of this response and will have appropriate policies and procedures in place by June 30, 2011.

Finding 9
St. Cloud State University did not administer certain contracts in accordance with Office of the Chancellor policy.

St. Cloud State University Response to Finding 9
The contracts were within the limitations of the Minnesota State Colleges and Universities policies within their initial contract period. At the time the additional 5 year extensions were implemented; the Office of the Chancellor approval should have been obtained. The University has been in compliance since this was previously identified by the Office of the Chancellor Internal Audit. The University has received payment for the commission revenue it was owed by the previous vending provider.

Steven Ludwig, Vice President for Administrative Affairs, is for this responsible for implementation of this response and will work with the Office of the Chancellor to establish appropriate processes for contract extensions by June 30, 2011.

Finding 10
St. Cloud State University did not have contracts for some purchased services and did not comply with certain Office of the Chancellor policies and procedures when it obtained other purchased services.

St. Cloud State University Response to Finding 10
The University concurs that approval should be obtained when contracts are not standard Minnesota State Colleges and Universities contract forms. The University will work with the Office of the Chancellor General Counsel to determine the correct course of action for subscription services.

Steven Ludwig, Vice President for Administrative Affairs, is for this responsible for implementation of this response and will work with the Office of the Chancellor to establish a course of action for subscriptions services by June 30, 2011.

Finding 11
St. Cloud State University had not solicited bids for its banking services for over five years or formalized certain banking services.

St. Cloud State University Response to Finding 11
The University will work with the Office of the Chancellor to review bidding of banking needs in conjunction with the collaborative sourcing initiatives in place. The University's current banking agreement was adjusted as a result of the outcome of the Metro Coalition's bank bid process. The University will review the international banking requirements with the Office of the Chancellor.

Steven Ludwig, Vice President for Administrative Affairs, is for this responsible for implementation of this response and will work with the Office of the Chancellor regarding bidding and international banking requirements by June 30, 2011.

Finding 12
St. Cloud State University inappropriately retained not public credit card and checking account information in its auxiliary operation's financial records.

St. Cloud State University Response to Finding 12
The University concurs with this finding and has masked the not public data since mid - 2009. The Office of the Chancellor is providing guidance for all Minnesota State Colleges and Universities regarding this finding and the University will implement when the guidance is available.

Steven Ludwig, Vice President for Administrative Affairs is responsible for implementation of this response and will implement as information is available.

Finding 13
Prior Systemic Finding Not Resolved: St. Cloud State University did not adequately manage equipment and sensitive asset inventories.

St. Cloud State University Response to Finding 13
The University concurs with the finding and will closely monitor the approximately $2.750 million of purchases that are made for resale in the Computer Store. The University was less than 6 months late in conducting the annual inventory of $10,000 or greater valued assets as a result of a number of employee changes. The University is on schedule to conduct the inventory on an annual basis as was done in the past.

Jeff Wagner, Director of Business Services, is responsible for implementation of this response and will have completed the review by June 30, 2011.

Finding 14
Prior Finding Partially Resolved: St. Cloud State University did not prepare accurate financial statements for its computer store.

St. Cloud State University Response to Finding 14
The University concurs with this finding.

Jeff Wagner, Director of Business Services, is responsible for implementation of this response and will provide additional training to Computer Store employees regarding financial reporting by June 30, 2011.

Finding 15
The University did not always deposit certain receipts daily, as required by Office of the Chancellor policy.

St. Cloud State University Response to Finding 15
The University concurs and in the summer, 2009, reprimanded and changed duties of one employee to insure receipts were entered into the accounting system in a timely manner. The University will insure receipts are deposited in accordance with state statute.

Steven Ludwig, Vice President for Administrative Affairs, is responsible for implementation of this response and will coordinate with the various areas to insure compliance by December 31, 2011.

Finding 16
St. Cloud State University erroneously refunded tuition and fees to certain students.

St. Cloud State University Response to Finding 16
The University calculated the refunds based on the criteria that the "end of the business day" which fell on a weekend as "prior to next business day" which was Monday. The University will work with the Office of the Chancellor to better accommodate the policy and practice of refunds and "end of business day" criteria.

Jeff Wagner, Director of Business Services, is responsible for implementation of this response and will work with the Office of the Chancellor to resolve this issue by June 30, 2011.

Finding 17
Prior Systemic Finding Not Resolved: St. Cloud State University did not always accurately account for faculty and administrator leave benefits.

St. Cloud State University Response to Finding 17
The University concurs with the recommendation to consider improvements in the leave module of the personnel system to reduce the potential for human error and properly reflect leave liquidation on employee separation. The FY 2008 and FY 2009 leave accrual issues were resolved with an accurate update to accruals. The University does not agree that part-time faculty leave activity entries are in error.

Larry Chambers, Director of Human Resources, is responsible for implementation of this response and will work with the Office of the Chancellor to resolve this issue by December 31, 2010.