



**FINANCIAL AUDIT DIVISION REPORT**

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**Metropolitan State University**

**Internal Controls and Compliance Audit**

**July 1, 2008, through March 31, 2011**

**January 17, 2012**

**Report 12-01**

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FINANCIAL AUDIT DIVISION

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

January 17, 2012

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Legislative Audit Commission

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Dr. Steven J. Rosenstone, Chancellor  
Minnesota State Colleges and Universities

Board of Trustees  
Minnesota State Colleges and Universities

Dr. Sue K. Hammersmith, President  
Metropolitan State University

This report presents the results of our internal controls and compliance audit of Metropolitan State University for the period July 1, 2008, through March 31, 2011.

We discussed the results of the audit with Metropolitan State University on January 11, 2012. The audit was conducted by David Polisen, CPA, CISA, CFE (Audit Manager) and Carl Otto, CPA, CISA (Auditor-in-Charge), assisted by auditors Kathy Rootham, Emily Wiant, Kevin Schoenrock, and Carissa Moritz.

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 Metropolitan State University. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 17, 2012.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

Metropolitan State University generally had adequate internal controls over its major financial activities, such as tuition and fees, employee salaries, and operating expenses.<sup>1</sup> 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.

For the items tested, Metropolitan State University did not comply with some policies and legal provisions related to purchasing cards, delegation of authority, procurement, tuition and fee rates, and leave benefits.

Metropolitan State University resolved 1 of the 3 prior audit findings.<sup>2</sup> The university did not fully resolve prior audit Finding 2 related to its verification of commission reports for bookstore operations; we repeat this finding as Finding 6. The university also did not fully resolve prior audit Finding 3 related to the sharing of cashiering activities; we repeat this finding as Finding 2. In addition, the university had three findings (Findings 1, 4, and 8) in areas where prior audits of other colleges and universities had identified common or systemic findings.<sup>3</sup>

## Key Findings

- Prior Systemic Finding Not Resolved: Metropolitan State University did not adequately assess its business risks or monitor the effectiveness of its internal controls. ([Finding 1, page 7](#))
- Metropolitan State University did not design, document, or monitor internal controls to mitigate risks created by some key employees having incompatible access to computer system functions. The university also did not resolve a prior audit finding when it allowed its cashiers to share logon IDs. ([Finding 2, page 8](#))

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<sup>1</sup> The audit scope did not include student financial aid.

<sup>2</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 02-58, *Metropolitan State University*, issued September 6, 2002. The report contained three findings.

<sup>3</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010. This report contained six 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 MnSCU system office.

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- Metropolitan State University charged some students tuition rates and fees that were different from the amounts approved by the MnSCU Board of Trustees. (Finding 3, page 9)
- Prior Systemic Finding Not Resolved:<sup>4</sup> Metropolitan State University did not always accurately account for faculty and administrator leave benefits. (Finding 4, page 11)

### **Audit Objectives and Scope**

#### Objectives

- Internal Controls
- Compliance

#### Programs Audited

- Financial systems security access
- Tuition and fee revenues
- Auxiliary revenues
- Local bank accounts

#### Period Audited

July 1, 2008, through March 31, 2011

- Personnel and payroll expenses
- Operating expenses
- Equipment purchases
- Relationship with the Metropolitan State University Foundation

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<sup>4</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010 (Finding 4).

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# Metropolitan State University

## Overview

Metropolitan State University serves over 9,600 students. Approximately 36 percent of the students are full-time and 64 percent are part-time. The university offers more than 60 undergraduate majors and a variety of graduate programs. Dr. Sue K. Hammersmith has been the president of the university since July 2008. The university is part of the Minnesota State Colleges and Universities (MnSCU) system. MnSCU is comprised of 31 state universities, community colleges, technical colleges, and the system office. The MnSCU Board of Trustees appoints the chancellor and provides strategic direction and governance for the system.<sup>5</sup>

Metropolitan State University uses MnSCU's accounting system to process and record financial activities. It 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. Metropolitan State University uses local bank accounts to allow for greater flexibility in managing high-volume transactions for financial aid, student activities, and auxiliary operations, such as parking and food service.

Metropolitan State University finances its operations through the Office of the Chancellor's allocation of state appropriation and retention of its tuition and other receipts. 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.<sup>6</sup>

Table 1 summarizes the university's financial activities for fiscal years 2009 and 2010.

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<sup>5</sup> *Minnesota Statutes* 2010, 136F.06 and 136F.07.

<sup>6</sup> Metropolitan State University audited financial statements can be found at MnSCU's web site under the Finance Division.

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**Table 1**  
**Revenues, Expenses, and Changes in Net Assets**  
**Fiscal Years 2009 and 2010 (In Thousands)**

	<u>2009</u>	<u>2010</u>
Revenues		
Tuition, auxiliary and sales, net	\$ 24,748	\$ 27,496
State appropriations	24,128	21,987
Capital appropriations	689	9,017
Other	<u>11,933</u>	<u>17,725</u>
Total Revenue	<u>\$ 61,498</u>	<u>\$ 76,225</u>
Expenses		
Salaries and benefits	\$ 42,816	\$ 43,615
Services and other expenses	13,799	15,835
Depreciation	2,306	2,299
Financial aid, net	1,126	2,092
Interest expense	539	623
Other	<u>39</u>	<u>48</u>
Total Expense	<u>\$ 60,625</u>	<u>\$ 64,512</u>
Change in net assets	\$ 873	\$ 11,713
Total net assets, beginning of year	<u>\$ 45,361</u>	<u>\$ 46,234</u>
Net assets, end of year	<u>\$ 46,234</u>	<u>\$ 57,947</u>

Source: Metropolitan State University's Annual Financial Report for the years ended June 30, 2009 and 2010, Management's Discussion and Analysis.

## Objective, Scope, and Methodology

Our audit included the material financial activities of Metropolitan State University, including security over access to computerized accounting applications, tuition and fee revenues, auxiliary revenues,<sup>7</sup> local bank accounts, personnel and payroll expenses, operating and administrative expenses, equipment purchases, and the university's relationship with the Metropolitan State University Foundation. However, the scope did not include federal student financial aid.<sup>8</sup> The audit examined transactions for fiscal years 2009, 2010, and 2011 (through March 31, 2011).

Our audit objective was to answer the following questions:

- Were internal controls at Metropolitan State University adequate to ensure that the university safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization,

<sup>7</sup> Auxiliary revenue activities include parking, food service and vending, and bookstore operations.

<sup>8</sup> Because federal student financial aid is audited by a CPA firm under the Single Audit Act, we did not include student financial aid in our audit scope.

produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did Metropolitan State University comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?
- Did Metropolitan State University resolve prior audit findings,<sup>9</sup> including those findings identified as MnSCU systemic findings in audits of other colleges?<sup>10</sup>

To answer these questions, we interviewed the university's staff to gain an understanding of the controls related to Metropolitan 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 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 the university's controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.<sup>11</sup> 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.

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<sup>9</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 02-58, *Metropolitan State University*, issued September 6, 2002. The report contained three findings.

<sup>10</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010. This report contained six 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 MnSCU system office.

<sup>11</sup> 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.

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## Conclusion

Metropolitan 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.

For the items tested, Metropolitan State University did not comply with some legal provisions and MnSCU and university policies, including those related to delegation of authority, tuition and fee rates, and leave benefits.

Metropolitan State University resolved 1 of the 3 prior audit findings relevant to this audit.<sup>12</sup> However, the university did not fully resolve prior audit Finding 2 related to its verification of commission reports for bookstore operations. We repeat this finding as Finding 6. The university also did not fully resolve prior audit Finding 3 related to the sharing of cashiering activities. We repeat this finding as Finding 2. In addition, the university had three findings (Findings 1, 4, and 8) in areas where prior audits of other colleges and universities had identified common or systemic findings.<sup>13</sup>

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

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<sup>12</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 02-58, *Metropolitan State University*, issued September 6, 2002. The report contained three findings.

<sup>13</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010. This report contained six 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 MnSCU system office.

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# Findings and Recommendations

## Finding 1

**Prior Systemic Finding Not Resolved:**<sup>14</sup> Metropolitan 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 tuition and fee revenues, auxiliary revenues, personnel and payroll expenses, operating and administrative expenses, equipment purchases, and inventory. Further, the university did not have a comprehensive plan to monitor the effectiveness of its internal controls.

Metropolitan State University had documented its risks and internal controls over a number of financial cycles related to financial reporting. However, it did not extend 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 12 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.

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<sup>14</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010 (Finding 1). (We define a systemic finding 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 MnSCU system office.)

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

## **Finding 2**

**Metropolitan State University did not design, document, or monitor internal controls to mitigate risks created by some key employees having incompatible access to computer system functions. The university also did not resolve a prior audit finding when it allowed its cashiers to share logon IDs.<sup>15</sup>**

The university allowed some key employees, such as the heads of the finance, human resources and payroll, and admissions and records to have incompatible access to accounting systems without designing, documenting, or monitoring the effectiveness of mitigating controls. The employees who set up, modified, and monitored employee system access for the university could also make changes to their own security access rights. These employees could modify their access, perform unauthorized transactions, and change their access back without detection. The university did not develop any mitigating controls, such as review of security changes by another person, to detect inappropriate or unauthorized changes these employees could make to their own security access rights. This resulted in a high risk that error or fraud could occur without detection.

In addition, the university allowed employees who performed cashiering duties to share logon IDs to access MnSCU's accounting system. Sharing logon IDs undermines good security because it limits management's ability to hold employees accountable for specific transactions, increasing the risk of theft or fraud.

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<sup>15</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 02-58, *Metropolitan State University*, issued September 6, 2002 (Finding 3).

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*Recommendations*

- *The university's security approvers should not be allowed to change their own security access or develop mitigating controls to monitor the approvers' access.*
- *The university should ensure that employees do not share system access, or they should develop other controls to hold employees accountable.*

**Metropolitan State University charged some students tuition rates and fees that were different from the amounts approved by the MnSCU Board of Trustees.****Finding 3**

The university did not have effective internal controls in place to ensure that it charged students the rates for some tuition and fees that the MnSCU Board of Trustees had authorized.<sup>16</sup> We compared the board approved rates and fees to the amounts in the university's tuition and fee rate tables used to charge students. Table 2 shows the discrepancies between the board's approved tuition and fee rates and those in the university's tuition and fee table, and the actual over (under) charges to students because of those errors. (Because students did not register for some of the incorrect tuition or fee types, not all of the discrepancies had a financial impact.)

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<sup>16</sup> MnSCU Policy 5.11 – Tuition and Fees details that the Board of Trustees shall approve the tuition structure for all colleges and universities.

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**Table 2**  
**Tuition Rates and Fees**  
**Discrepancies between MnSCU Board of Trustees' Approved Amounts and**  
**Metropolitan State University's Tuition and Fee Rate Tables**

Tuition/Fee Type	Terms	Board Approved Amounts	Tuition and Fee Table Amounts	Actual Over (Under) Charge
Online Undergraduate Internet Courses	Summer 2008 through Summer 2009	\$229	\$230	\$28,984
Graduate Assistant – Online Graduate Internet Courses	Summer 2009 through Spring 2010	\$363	\$63	0
	Summer 2010 through Spring 2011	\$383.19	\$63	(\$5,763)
Graduate Internet Courses	Summer 2008 through Summer 2009	\$346	\$345	(\$4,551)
Undergraduate Tuition Rate for South Dakota Residents	Summer 2008 through Spring 2009	\$187.10	\$197.53 <sup>1</sup>	\$1,596
	Fall 2010 through Spring 2011	\$210.99	\$221.42 <sup>1</sup>	\$125
Special Course Fee (Art)	Fall 2010	\$12.50	\$20	\$810
Graduate Assistant – Minnesota Internet Courses	Summer 2010	\$242	\$177.15	(\$259)
	Fall 2010 and Spring 2011	\$255.45	\$187	\$0
Undergraduate Nursing Program Tuition Rate for Wisconsin Residents	Fall 2009 through Summer 2010	\$237	\$182.36	\$0
	Fall 2010 through Spring 2011	\$250.18	194.06	\$0

Note 1 - The university added the general required fees (\$10.43 total per credit) to the tuition rate and also separately charged the students for the fees.

Sources: MnSCU Board of Trustees' minutes and Metropolitan State University's tuition and fee rate tables.

Effective controls could include a periodic verification that the rates used to determine tuition and fee charges were approved by the Board of Trustees and accurately entered into MnSCU's registration system.

#### *Recommendations*

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



**Prior Systemic Finding Not Resolved:<sup>17</sup> Metropolitan State University did not always accurately account for faculty and administrator leave benefits.**

## Finding 4

Metropolitan State University did not have effective controls to ensure it properly recorded leave earned or taken by employees. MnSCU's computerized system does not always accurately incorporate the leave provisions of the various bargaining agreements.<sup>18</sup> Errors in recording sick and vacation leave could result in employees receiving leave benefits that do not comply with applicable bargaining agreements.

Metropolitan State University had the following errors in its leave records:

- The university inaccurately recorded sick leave earned for 13 of 28 employees we tested.<sup>19</sup> The university did not record any sick leave for some of these employees and recorded the wrong amount for others. For 10 of the 13 exceptions, the university's errors related to leave earned by part-time faculty, primarily when they were working during the summer sessions. These errors resulted in 12 employees' leave balances being understated by a total of 239 hours and one employee's leave balance being overstated by 17 hours.
- The university inaccurately recorded sick and vacation leave taken for 4 of 28 employees we tested. The amount recorded in the payroll system differed from the amount approved on the leave slip. In two of the exceptions, the system showed 20 and 28 more hours of vacation, while a third exception showed 56 more hours of sick leave than approved on the leave slips. For the fourth exception, the university miscoded another employee's 56 hours of sick leave as vacation leave.

In its response to this issue in our 2010 audit, the MnSCU system office stated that it had taken significant steps to improve the leave accounting processes for colleges and universities. One step the university took was to provide employees with monthly statements of leave earned and used. However, employees may not review the statements promptly or report discrepancies to university staff. Employees did not identify the errors found in our testing.

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<sup>17</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010 (Finding 4).

<sup>18</sup> MnSCU universities maintain leave records for administrators and faculty in MnSCU's State Colleges and Universities Personnel Payroll System.

<sup>19</sup> The 28 employees tested included full and part-time faculty, unclassified administrators, and Minnesota State University Association of Administrative and Service Faculty employees.

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### *Recommendations*

- *The university should develop effective controls to ensure it accurately accounts for faculty and administrator leave benefits.*
- *The university should correct leave balances for those employees where we identified discrepancies.*
- *The university should review summer leave accruals for all part-time faculty.*
- *The MnSCU system office should continue to work with universities to address leave accounting problems and consider improvements in the computerized leave module of the personnel system.*

## **Finding 5**

### **Metropolitan State University inaccurately compensated some employees.**

The university inaccurately paid 2 of the 31 faculty members we tested. The university underpaid one faculty member \$14,150 because the human resources staff did not include four credits of curriculum development, omitted 1.4 duty days for curriculum coordination, and underpaid an independent assignment. The department also underpaid one faculty member \$1,064 because of errors in recording overload credits and coordinator assignment duty days in fiscal year 2009.

The university had errors in compensating its faculty and did not accurately record assignments in its payroll system. MnSCU's faculty contracts define the terms of faculty compensation. Typically, the university pays faculty based on the course credits taught or duty days worked. Although a faculty member may have an initial course schedule, the university may drop or add a course based on student enrollment. In addition, a faculty member's compensation could change if they have overload or special assignments, such as independent study or coordinator duties. Each university's academic department is responsible to report faculty assignments and any subsequent changes to their human resources departments. Human resources staff is responsible for ensuring that faculty assignments are accurately reflected in the university's payroll and personnel system. Inaccurate assignment data not only results in inaccurate compensation, but also inaccurate information for university planning and budgeting.

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*Recommendations*

- *The university should review the assignments for the two underpaid faculty members and make any necessary salary adjustments.*
- *The university should ensure that it accurately records faculty assignment information in its payroll system.*

**Prior Finding Partially Resolved:<sup>20</sup> Metropolitan State University did not verify the accuracy of its bookstore commission receipts.**

**Finding 6**

Metropolitan State University did not determine if it received the correct amount of commissions from the vendor who operated its bookstore. The university did not verify or complete a detailed analysis of the vendor's financial records to substantiate the gross sales amounts the vendor used as the basis for the commission payments. Instead, the university relied on the vendor's monthly summary of the bookstore's gross sales amounts. For the period July 2009 through March 2011, the vendor paid commission to the university totaling approximately \$842,000. The contract with the bookstore vendor allowed the university to review the vendor's financial records in order to verify the accuracy of its commission receipts.

*Recommendation*

- *The university should ensure the accuracy of commission receipts it receives from the bookstore vendor.*

**Metropolitan State University did not always retain adequate documentation to support its personnel and payroll actions.**

**Finding 7**

Metropolitan State University did not always retain adequate documentation to support its personnel decisions, assignments, and assignment changes. The university did not have documentation to support the following personnel actions:

- The university did not retain personnel action forms for seven employees to document new hires or changes in job status or assignment changes. In one case, Human Resources did not follow-up with the Provost's Office to ensure it received a personnel action form.

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<sup>20</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 02-58, *Metropolitan State University*, issued September 6, 2002 (Finding 2).

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- The university did not retain an appointment letter to document the annual assignment for one faculty member.
- The university did not retain updated assignment forms or instructional change request forms for two faculty members to document changes to their assignments.
- The university did not retain the invoice for one faculty member's paid independent study assignment.

In regards to payroll, the university did not retain leave slips for 4 of 28 employees tested.

*Minnesota Statutes* require the university to maintain records necessary to provide full and accurate documentation of official activities.<sup>21</sup> Statutes further require that the chief administrative officer of each agency preserve the agency's records connected to the transaction of public business, including protecting these records from deterioration, mutilation, loss, or destruction. State policies reinforce this requirement. Without adequate supporting documentation, the university was unable to show that the personnel actions complied with applicable legal requirements.

#### *Recommendation*

- *The university should ensure it retains sufficient documentation to support its payroll and personnel activities.*

## Finding 8

**Prior Systemic Finding Partially Resolved:<sup>22</sup> Metropolitan State University did not sufficiently control employees' use of university-issued purchasing cards.**

Metropolitan State University allowed four employees to share the use of its purchasing card; however, MnSCU policy restricts the use of the purchasing card to only the authorized purchasing card holder.<sup>23</sup> The purchasing card was issued in the name of the university and the university employee responsible for purchasing. By allowing other employees to use the purchasing card, the university may not always be able to identify who used the purchasing card or ensure that the purchases were authorized and complied with purchasing requirements. From June 2008 through March 2011, the university used the purchasing card to pay for about \$71,000 of costs.

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<sup>21</sup> *Minnesota Statutes* 2009, 15.17, subd. 1 and subd. 2.

<sup>22</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division Report 10-29, *Minnesota State Colleges and Universities*, issued September 14, 2010 (Finding 6).

<sup>23</sup> MnSCU policy 7.3.3 requires the cardholder to not allow anyone else to use the purchasing card or card account number.

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In addition, the university did not have original, itemized receipts for 4 of the 23 purchasing card purchases we tested. MnSCU procedure requires cardholders to obtain and retain original itemized receipts for all purchases.<sup>24</sup> Without the supporting documentation, the university was unable to show that these purchases (totaling \$420) were allowable uses of the purchasing card. MnSCU's policies and procedures for purchasing card purchases restrict the types of items that can be purchased and requires that those purchases comply with MnSCU's other purchasing policies and procedures.<sup>25</sup>

#### *Recommendation*

- *The university should ensure that purchases made by employees with the university's purchasing card comply with purchasing card and other purchasing policies and procedures.*

**Metropolitan State University did not properly delegate authority to some of its employees to authorize contracts, purchase goods or services, and approve invoices for payment.**

## **Finding 9**

For the transactions we reviewed, Metropolitan State University allowed five employees to bind the university to legally enforceable obligations without the appropriate delegation of authority, as explained in the following bullets:

- Metropolitan State University allowed two employees to enter into contracts or make purchases that exceeded their delegated authorities. One of the employees entered into a contract for services totaling \$61,319 after amendments; however, the employee only had delegated authority up to \$50,000. The other employee purchased supplies for the food service operations costing \$1,121; however, the employee only had delegated authority up to \$1,000.
- Metropolitan State University allowed an employee with no delegated authority to purchase books for the library totaling \$1,551. The university allowed the same employee to make purchases for the library using the university's purchasing card number without formal delegated authority.
- Three employees were allowed to approve invoices for payment without delegated authority.

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<sup>24</sup> MnSCU Procedure 7.3.3, Part 7.

<sup>25</sup> MnSCU Procedure 7.3.3 – Credit Cards. Part 6, lists items not allowed to be purchased with purchasing cards, including items for personal use, individual meals and other travel expenses, entertainment or recreation items, and alcoholic beverages.

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- The university did not comply with the MnSCU procedure when it allowed an administrator to write-off accounts receivable without formal delegation of authority from the president.<sup>26</sup>

MnSCU procedure required a formal delegation of authority for employees to perform certain operations, including contracting, purchasing, and write offs of accounts receivable.<sup>27</sup> Each university president is accountable for assuring proper delegation of authority to employees of that institution.

#### *Recommendations*

- *The university should document its delegation of authority to staff that enter into certain transactions, such as authorizing contracts, purchases, payments, and accounts receivable write-offs.*
- *The university should establish controls to ensure that only staff with formal delegated authority perform contracting and purchasing functions, including authorizing payments and writing off accounts receivable.*

## **Finding 10**

**Metropolitan State University did not properly process graduate assistant payroll transactions.**

During the period from July 2008 through March 2011, the university billed departments for the cost of graduate assistants' tuition reductions. However, MnSCU policy requires the university to process the graduate assistant tuition reduction transactions through the student payroll system.<sup>28</sup> By not processing these transactions through the student payroll system, the university did not determine whether taxes needed to be withheld or whether the university needed to report the tuition reduction as income to state and federal tax departments.

#### *Recommendations*

- *The university should process graduate assistant payroll activity through the student payroll system, as required by MnSCU policy.*

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<sup>26</sup> MnSCU Procedure 7.6.2, Subpart G – Details that all write-offs of uncollectible accounts receivable require the approval of the president or designee.

<sup>27</sup> MnSCU Procedure 1A.2.2 - Delegation of Authority.

<sup>28</sup> MnSCU Policy 4.5, defines the graduate assistant positions and funding, and requires that the transactions be processed through the student payroll system.

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- *The university should review its graduate assistant payroll transactions to ensure compliance with state and federal tax laws.*

**Metropolitan State University did not always properly process student tuition waivers.**

**Finding 11**

The university did not always follow MnSCU policy when it waived tuition and fees for students. The university did not always obtain proper approval for student tuition waivers before processing them in the accounting system. The university did not have evidence of approval by the associate vice president for 7 out of 12 student waivers we tested, totaling \$15,341. Without proper authorization, there is no assurance that the waivers met the criteria for waiving tuition or fee charges.

Waivers are high-risk transactions, because they reduce the university's revenue. During the period from July 2008 through March 2011, student waivers totaled \$131,697.

*Recommendation*

- *The university should document appropriate authorization for student tuition and fee waivers.*

**Metropolitan State University did not accurately refund tuition and fees to certain students.**

**Finding 12**

The university did not have adequate controls to ensure it accurately refunded tuition and fees to certain students. The university had errors in four out of seven tuition and fee refunds we tested, totaling \$1,108. For example, the university under-refunded one student \$395 and over-refunded another student \$328 since the wrong number of days were used to determine the tuition refund amount.

Refunds are high-risk transactions because determination of the refund amount requires manual calculations and knowledge of MnSCU's refund criteria.<sup>29</sup> The university made some errors because staff used the wrong refund schedules and others because staff included holidays as business days when determining the allowable refund period, which is not compliant with MnSCU policy.<sup>30</sup>

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<sup>29</sup> MnSCU Policy 5.12, Subpart D, shows the tuition and fee refund schedule for withdrawals from for-credit courses.

<sup>30</sup> MnSCU Policy 5.12, Subpart C, states that business days are defined as Monday through Friday (excluding posted holidays).

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*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.*
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January 12, 2012

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

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on your report that summarizes the results of Metropolitan State University's audit for the period July 1, 2008 through March 31, 2011.

We appreciate the review process as we continually strive for quality improvements and enhancements in internal controls.

As part of my commitment to continuous improvement in all aspects of our operations, I continue to place high emphasis on transparency in fiscal matters. In addition, as part of the university's commitment for continuous improvement, we continue to make special efforts to document procedures as well as to improve our internal controls. The observations and recommendations contained in the audit report will assist us on our journey for continuous improvement and strengthen fiscal operations and accountability.

I would also like to comment that over the past few years the University has been and continues to be challenged with staff vacancy and turnover, both in Financial Management and in Human Resources Offices. The vacancy and turnover create significant challenges for management as well as places greater work load on the remaining staff.

We wish to extend our sincere thanks to your field and management staff who took time to assess our operations. Please find listed below our responses to the findings, including remedies:

Finding 1:

**Prior Systemic Finding Not Resolved: Metropolitan State University did not adequately assess its business risks or monitor the effectiveness of its internal controls.**

Response:

Metropolitan State University partly agrees with this finding. The University takes seriously its fiduciary responsibilities as the custodian of tuition and state appropriation funds. The University complies with policies, procedures and guidelines established by Minnesota State Colleges and Universities Board of Trustees, including preparation of annual financial statements audited by independent auditors, and internal control reviews conducted by the Office of Internal Audit. Internal controls are documented and

updated annually in the Business Control Cycles established by Minnesota State Colleges and Universities. Administration of Metropolitan State University reviews each report issued by the Office of the Legislative Auditor regarding Minnesota State Colleges and Universities, to determine risks and impact on Metropolitan State University.

The university appreciates the recommendation. As part of our commitment to continuous improvement in internal controls, we will continue to improve our document processes, while frequently reviewing the risks and monitoring functions related to our operations and compliance responsibilities.

Responsible Individual(s): Primary – Ronald Beckstrom; secondary – Murtuza Siddiqui.

Resolution Period: Fiscal Year 2012 - 13

Finding 2:

**Metropolitan State University did not design, document or monitor internal controls to mitigate risks created by some key employees having incompatible access to computer system functions. The university also did not resolve a prior audit finding when it allowed its cashiers to share logon IDs.**

- **The employees who set up, modified, and monitored employee system access for the university could also make changes to their own security access rights. These employees could modify their access, perform unauthorized transactions, and change their access back without detection. The university did not develop any mitigating controls, such as review of security changes by another person, to detect inappropriate or unauthorized changes these employees could make to their own security access rights.**

Response:

Metropolitan State University partly agrees with this finding. The University monitors access to computer systems at least annually during security recertification, and is diligent in developing monitoring and/or detective controls when the system(s) indicate an incompatibility exists. Mitigating controls are also monitored and reviewed by the Office of Internal Audit to ensure that the mitigating controls are being followed. The system used by both Financial Management and HR/Payroll security access rights was designed and is maintained by the MnSCU System Office Information Technology unit. In addition, because the System Office IT unit maintains the security access rights system used by all MnSCU institutions, IT works with the System Office's Human Resources division to monitor individual campus access rights to ensure that everyone, including those with the authority to set up, modify, and monitor other employees' access rights, has the appropriate authorization.

The University does agree that there is improvement possible in internal controls that allow security managers to grant themselves access to functions within their functional areas. Most approval managers are responsible for their own areas, which makes having alternate approval managers difficult. While approval managers can make changes to their access without notification to others, the transactions are logged in the computer systems. The University has had discussions with the Office of Internal Audit and will encourage MnSCU to make changes to the computer systems to generate notifications to the

Institution Security Manager and/or Administration to notify when a security manager changes his or her access.

- **The university allowed employees who performed cashiering duties to share logon IDs to access MnSCU's accounting system.**

Response:

Metropolitan State University agrees with the finding that cashiering employees share a logon to the ISRS system; however, the University believes that mitigating and detective controls in place reduce the risk of loss. The University has a single cash register and cash drawer, the volume of transactions does not justify a second cash register and drawer, and requiring separate logons each time a different employee is performing cashiering duties using a single cash drawer is not viable. As mitigating controls, the University does daily reconciliations of the cash drawer and deposit, and the transactions are also reconciled daily to the local bank account. The University is also implementing having a manager sign off on the daily cash reconciliation at the end of the business day, which approval would be filed as part of the daily cash session.

Responsible Individual(s): Ronald Beckstrom

Resolution Period: End of the FY 2012

Finding 3:

**Metropolitan State University charged some students tuition rates and fees that were different from the amounts approved by the MnSCU Board of Trustees.**

Response:

The University agrees with this finding. The errors noted occurred during turnover in the Financial Management office functions over tuition table entry. We have put processes in place to have tuition and fee tables reviewed by a second employee after entry into the ISRS system, to compare tuition and fees entered with rates approved by the Board of Trustees. In addition, it should be noted that there was an issue with rounding of the numbers, in which the rates submitted to the Trustees were rounded down in the Board of Trustee minutes, but were rounded up by the University in the tuition tables. In the future, we will ensure consistency.

Responsible Individual(s): Primary – Miliite Gebrimichael; Secondary – Ronald Beckstrom

Resolution Period: Completed

Finding 4:

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

Response:

The University agrees with the finding. In addition to forwarding all leave balances to faculty members and administrators, on a monthly basis, when the Office of Human Resources prepares to separate (retirement, resignation, termination, etc.) a faculty member or an administrator, the Office of Human Resources also reviews the faculty member's/administrator's leave balances to ensure it is accurate so that the university complies with severance and vacation pay out provisions of the applicable collective bargaining or personnel plan.

Responsible Individual(s): Stephanie Miller

Resolution: Currently underway

Finding 5

**Metropolitan State University inaccurately compensated some employees.**

Response:

We do not fully concur with the stated amounts; however, we do take accuracy of compensation very seriously. As part of due diligence, we will continue to work very closely with Academic Division to ensure accuracy of information. Further, we are committed to reviewing the stated amounts to reach resolution.

Responsible Individual(s): Primary - Stephanie Miller; Secondary – Murtuza Siddiqui

Resolution: Currently underway

Finding 6

**Prior Finding Partially Resolved: Metropolitan State University did not verify the accuracy of its bookstore commission reports.**

Response:

The University agrees with this finding. Commission reports are provided monthly to the manager responsible for administration of the contract with the bookstore vendor. These reports are then provided to Financial Management along with the monthly commission check as documentation for the receipts.

However, the monthly point-of-sale report had not been received by the University's cognizant accounting personnel due to a change in email addresses for the Financial Management office, and this was not investigated nor corrected. Upon notification of this finding, the University put into place procedures for monthly reconciliation of the point-of-sale report with the commission payment. The reconciliation is being provided monthly to the Accounts Receivable manager, and quarterly to the Associate Vice President for Financial Management.

Responsible Individual(s): Primary - Miliite Gebrimichael; Secondary – Ronald Beckstrom

Resolution: Complete

Finding 7

**Metropolitan State University did not always retain adequate documentation to support its personnel and payroll actions.**

Response:

The University concurs with the finding. We are reviewing our current processes and will ensure that proper documentation is retained. It should be noted however, that the university has undergone staffing changes, particularly in Human Resources.

Responsible Individual(s): Stephanie Miller

Resolution: On-going

Finding 8

**Prior Systemic Finding Partially Resolved: Metropolitan State University did not sufficiently control employees' use of university-issued purchasing cards.**

Response:

The University agrees with this finding. The University currently has only one university-issued purchasing card, and use of the purchasing card by other than the card holder is considered a poor practice in addition to an internal control deficiency. The charges to the card are monitored closely to ensure that charges are appropriate, and in the case where the card was used inappropriately, use of the card by the employee was immediately terminated.

The University is working with the Minnesota State Colleges and Universities Campus Service Cooperative to expand the purchasing card program at the University, to ensure that cards will be issued to newly-designated cardholders and may be used only by the cardholders and authorized users.

Responsible Individual(s): Ronald Beckstrom

Resolution: Pending

Finding 9

**Metropolitan State University did not properly delegate authority to some of its employees to authorize contracts, purchase goods or services, and approve invoices for payment.**

Response:

The University agrees with this finding. The University has implemented measures to comply with purchasing and contracting policies and procedures. Delegations of authority are reviewed and compared to purchase requisitions and invoices when received, to ensure that the approving person has the authority to bind the University. This also extends to contracts in which amendments may exceed the approving officials delegation of authority, and approval is sought by the manager with appropriate

authority. The Financial Management Office works periodically with the President's Office to verify existence of the delegation of authority form on file.

The University has also amended the delegation of authority for the Vice President of Administrative Affairs, and the Associate Vice President for Financial Management, to grant authority to write-off uncollectible accounts receivable.

Responsible Individual(s): Primary – Purchasing & Accounts Payable; Secondary: Ronald Beckstrom  
Resolution: Complete and on-going

#### Finding 10

**Metropolitan State University did not properly process graduate assistant payroll transactions.**

Response:

The University does not fully agree with this finding. The University has worked with MnSCU Tax Services Unit to review the Procedures for Taxation of Graduate Student Tuition Reductions, as published on the MnSCU Tax Services web site. The taxable status of graduate assistant tuition reductions is determined by whether the tuition reduction requires performance of services to qualify for the tuition reduction. The hours worked by graduate assistants are processed through the payroll system, but the tuition reductions are processed through third – party if there is no service requirement. This process appears to be consistent with MnSCU Tax Services Unit procedures.

Responsible Individual(s): Ronald Beckstrom  
Resolution: On-going

#### Finding 11

**Metropolitan State University did not always properly process student tuition waivers.**

Response:

The University agrees with this finding. Student tuition waivers are submitted to the Financial Management office for processing and approval by the Associate Vice President for Financial Management. Approval for tuition waivers had not been consistently enforced due to turnover in the Financial Management office. The University will ensure that all student tuition waivers are properly reviewed and approved, and documentation maintained in the Financial Management office.

Finding 12

**Metropolitan State University did not accurately refund tuition and fees to certain students.**

Response:

The University agrees with this finding. Errors noted in the report occurred during a period of staff turnover and the new staff calculating refunds was not fully trained in the application of MnSCU refund policies. Staff in the Registrar's office that process refund transactions have been thoroughly trained in application of the MnSCU policy regarding refunds. The Registrar's office will work with the Financial Management office to make appropriate adjustments to students' accounts for errors identified.

Responsible Individual(s): Ronald Beckstrom and Andrew Melendres.

Resolution: Accounts to be adjusted by the end of FY 2012.

Respectfully,



Sue K. Hammersmith, Ph.D  
President

cc: Mr. Murtuza Siddiqui, CFO/Vice President of Administrative Affairs  
Ms. Beth Buse, Executive Director, Internal Auditing  
Ms. Laura King, Vice Chancellor for Finance and Administration  
Mr. Ron Beckstrom, Associate Vice President, Financial Management  
Ms. Stephanie Miller, Director, Human Resources