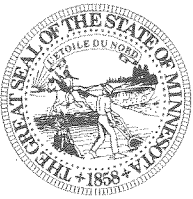


**STATE UNIVERSITY SYSTEM  
MANKATO STATE UNIVERSITY  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1985**

**JULY 1986**

**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Jon Wefald, Chancellor  
State University System

Members of the State University Board

Dr. Margaret R. Preska, President  
Mankato State University

Audit Scope

We have completed a financial and compliance audit of Mankato State University (MSU) for the three years ended June 30, 1985, except for those programs and activities further described in the Scope Limitations section of this letter. Section I provides a brief description of the university's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on February 28, 1986..

The objectives of the audit were to:

- study and evaluate certain Mankato State University internal accounting control systems, including a review of tuition receipts, payroll, disbursements through the statewide accounting system, tickets, and contracts;
- verify that financial transactions for state funded programs were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 136, State University Board policies and procedures, and other finance-related laws and regulations;
- evaluate the recording and reporting of financial transactions on the statewide accounting system; and
- determine the status of prior audit recommendations.

The management of MSU is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
Dr. Jon Wefald, Chancellor  
Members of the State University Board  
Dr. Margaret R. Preska, President  
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that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of MSU is also responsible for the university's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by MSU. The purpose of our testing of transactions was to obtain reasonable assurances that MSU had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Scope Limitations

As explained in Section I of this report, certain operating activities of Mankato State University are accounted for through the Statewide Accounting (SWA) System. However, other university activities, including federal financial aid programs, the Revenue Bond Fund, and the University Activity Fund are accounted for only through the university accounting system and local bank accounts.

The majority of our audit work was done on the MSU activities accounted for through the statewide accounting system. However, during the course of our audit, we also performed limited reviews and testing of certain MSU functions not accounted for on SWA. These included a review of the MSU parking permit and fine collection system, and the university's relationship with the MSU Foundation. Audit techniques used in these areas included, but were not limited to, auditor observation, interviews with university personnel, a review of procedures, and examination of documentation supporting selected transactions.

We did not audit the State University System Revenue Bond Fund. We also did not audit any federal programs, including student financial aid programs, for compliance with federal regulations. The Revenue Bond Fund and student financial aid programs administered by MSU were audited by private CPA firms for fiscal years 1983 through 1985. We did not review the work done by other auditors and have placed no reliance on their work.

#### Conclusions

In our opinion, except for those issues raised in Section II, recommendations 5 through 7, internal controls over tuition receipts, payroll, disbursements through SWA, tickets, and contracts in effect as of June 30,

Senator Randolph W. Peterson, Chairman  
Members of the Legislative Audit Commission  
Dr. Jon Wefald, Chancellor  
Members of the State University Board  
Dr. Margaret R. Preska, President  
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1985, were sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions relating to those systems are executed in accordance with management's authorization.

As explained in the Scope Limitations section of this letter, internal controls over federal programs administered by MSU, the Revenue Bond Fund, and the University Activity Fund were not evaluated by us, and accordingly, we do not express an opinion on these systems. Because of the limited scope of our work, we also do not express an opinion on the system of internal accounting control of MSU taken as a whole.

In our opinion, for the three years ended June 30, 1985, MSU administered tuition and fees, payroll disbursements through SWA, tickets, and contracts in compliance, in all material respects, with applicable finance-related laws and regulations.

Compliance with finance-related laws and regulations applicable to federal programs administered by MSU, the Revenue Bond Fund, and the College Activity Fund was not evaluated by us, and accordingly, we do not express an opinion on agency compliance for those programs.


In our opinion, for the three years ended June 30, 1985, MSU properly recorded, in all material respects, its financial transactions on the state-wide accounting system.

Recording of financial transactions on the State University System accounting system was not reviewed by us, and accordingly, we do not express an opinion on the proper recording of those transactions.

Recommendations 1 through 4 discuss issues concerning the relationship between MSU and the MSU Foundation. Although we did not audit the MSU Foundation, we reviewed MSU's responsibility to provide administrative support to the foundation.

The recommendations included in this audit report are presented to assist the university in improving accounting procedures and controls. We will be monitoring and reviewing MSU progress on implementing these recommendations. A summary of the progress made on all audit recommendations discussed in our last audit report covering the year ended June 30, 1982, dated June 22, 1983, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the MSU staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

July 8, 1986



# MANKATO STATE UNIVERSITY

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## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Al Finlayson	Staff Auditor
Mike Anderson	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Mankato State University on February 28, 1986:

Victor Colway	Vice President, Fiscal Affairs
H. Dean Trauger	Director, Business Office
Laverna Alm	Director, Accounting
Bill Milow	Director, Business Systems and Procedures





# MANKATO STATE UNIVERSITY

## I. INTRODUCTION

Mankato State University is under the management and control of the Minnesota State University Board and the immediate supervision of a president appointed by the Board. Dr. Margaret R. Preska has served as university president since 1979.

Operations of the university are financed mainly by student tuition and fees, and state appropriations from the General Fund. Instructional activities of the university are accounted for through the Statewide Accounting (SWA) System. However, other activities of the university are accounted for only through the State University System accounting system. These include federal financial aid programs, the Revenue Bond Fund (dormitories and student union), and University Activity Funds. Local bank accounts are maintained for these activities. These off-SWA activities are governed by policies established by the State University Board.

During fiscal years 1983-1985, Mankato collected \$37,878,580 in tuition, and spent \$116,742,354 for general operations through the statewide accounting system as follows:

<u>Fiscal Year</u>	<u>Tuition Receipts</u>	<u>Percent of Total State University System</u>	<u>General Operating Expenditures</u>	<u>Percent of Total State University System</u>
1983	\$10,120,371	30%	\$34,158,777	26%
1984	13,073,479	30%	39,451,108	27%
1985	14,684,730	30%	43,132,469	27%

The number of students enrolled during the school years covered by this audit, as recorded by the university, was as follows:

<u>School Year</u>	<u>Head Count</u>	<u>Full-Time Equivalent</u>
1982 - 83	13,784	11,082
1983 - 84	13,825	11,050
1984 - 85	13,774	11,182

## MANKATO STATE UNIVERSITY

### II. CURRENT FINDINGS AND RECOMMENDATIONS

The relationship between MSU and its foundation is not clearly defined.

Each state university is associated with a university foundation. The foundations are separate nonprofit organizations established to provide funds for program development, scholarships, and other means of financial support at each university. In fiscal year 1985, the MSU Foundation received \$534,633 in general contributions, endowments, and grants and contracts.

There is a very close relationship between MSU and the MSU Foundation. This is evidenced through the following:

- Checks written on the foundation checking account do not require the signature of a foundation board member but rather are signed by university personnel.
- Approval for all purchases is given by university personnel.
- Letters thanking those who contribute to the foundation are sent out on university letterhead stationary. Some of the letters thank the donor for their gift to the university. Other letters mention both the foundation and the university. All of the letters are signed by the director of the annual fund who is an employee of the university.
- Donation checks made payable to the university are deposited into the foundation's account.
- The foundation has delegated the authority for setting scholarship award criteria, for scholarships made from restricted and unrestricted donations, to the university.

All of these situations seem to indicate the the MSU Foundation does not have a distinct identity separate and apart from the university. MSU has stepped beyond simply providing clerical services to the foundation. In fact, the university has been given the responsibility to set the criteria for scholarship awards from restricted donations other than endowments. The university also conducts the annual fund drive and various other fund-raising activities throughout the year. It is difficult in this case to determine exactly what function the foundation serves in soliciting funds for MSU which could not be handled directly by the university itself.

Since funds deposited in foundation accounts are not subject to the state regulations which MSU must follow, it may be possible to use the foundation as a means of circumventing established state accounting and purchasing procedures. This is acceptable only if the foundation has independent management which exercises appropriate control over the foundation's purchasing and spending decisions, apart from the university.

## MANKATO STATE UNIVERSITY

The foundation's lack of autonomy may cause confusion for donors because they may not readily be able to identify whether they are dealing with the university or the foundation. It is important that donors know to whom their money is going, both directly and indirectly, and the flow of such funds. We are also concerned with the potential liability to MSU if the foundation does not use grant monies in accordance with grant stipulations. An autonomous foundation would provide more protection against such liability.

To ensure that the foundation is separate and distinct from the university, and to avoid any conflict of interest for MSU employees, those employees should not be involved in the management or policy decisions of the foundation.

### *RECOMMENDATIONS:*

1. *MSU should work with the MSU Foundation to clarify the role of each in the solicitation of funds.*
2. *Foundation management and policy decisions should be autonomous from the university, including the following:*
  - *purchases should be approved by foundation staff,*
  - *checks written on the foundation checking account should include at least one foundation signature, and*
  - *scholarships awarded should be approved by the foundation.*
3. *MSU should make clear to potential donors whether the university or the foundation is actually soliciting the funds and to whose account those contributions will be deposited when received. Foundation gifts should be acknowledged by the foundation on foundation letterhead.*

### MSU needs to implement procedures for monitoring the spending of restricted donations and endowments from the MSU Foundation.

Donations to the MSU Foundation can be unrestricted, restricted, or in the form of endowments. Restricted donations and endowments are given to the foundation by donors who want the money to be spent for specific purposes. During fiscal year 1985, the foundation received \$368,059 in restricted donations and \$90,628 in endowments.

The MSU Foundation has a policy which states in part that:

The gifts, grants, awards, etc. that flow through the foundation are normally distributed by officers and employees of Mankato State University. It is the policy of the Mankato State University Foundation that each officer and other responsible employee of Mankato State University will so conduct their affairs as to assure, to the best of their ability, that these gifts are utilized in the manner that the donor and Mankato State University Foundation intend.

## MANKATO STATE UNIVERSITY

MSU does not currently monitor individual disbursements that are made to ensure that all spending restrictions and guidelines are being adhered to. Rather, they rely on individual MSU employees who receive the foundation funds to monitor the compliance. In order to avoid any potential conflicts with the MSU Foundation or its donors, MSU needs to establish procedures for monitoring the expenditure of funds received from the foundation.

### RECOMMENDATION:

4. *MSU needs to establish procedures to ensure that funds received from the MSU Foundation are spent in the manner intended by the foundation and the donors.*

Internal control over the sale of theater department tickets is inadequate.

The theater department is responsible for selling tickets for theater department events (i.e., plays and musicals). During fiscal year 1985, the theater department took in approximately \$1,500 to \$3,000 for each production.

During fiscal year 1985, one individual in the theater department was responsible for maintaining custody of the theater tickets, selling the tickets, preparing deposits, and performing reconciliations of tickets and sales receipts. These duties should not be performed by the same individual.

A good system of internal control is designed to provide independent checks to prevent and detect errors and irregularities in the maintenance and accountability of assets. For a system of internal controls to be effective, the person responsible for the custody of the theater tickets should not be involved in ticket recordkeeping or reconciliations of tickets to sales receipts. To provide better internal control, at minimum, someone from the business office should review the final ticket reconciliation for each production. This review should include a count of remaining tickets, and a comparison of receipts deposited to tickets sold.

### RECOMMENDATION:

5. *Mankato State University should ensure adequate separation of duties over theater ticket sales.*

Athletic tickets and parking permits are not being reconciled on a timely basis.

In two areas at MSU, timely reconciliations of quantities sold to receipts collected are not being performed.

Parking permits are sold by the MSU business office. These permits are of various colors, identifying the value of the permit and the location of the lots for which it can be used. The value of the permits for fiscal

## MANKATO STATE UNIVERSITY

year 1986 range from \$8 to \$53 for a yearly permit. All permits are pre-numbered. No reconciliations of parking receipts collected to permits sold was performed for fiscal year 1984 or 1985. As of February 28, 1986, no reconciliation had been completed for the permits issued during fiscal year 1986. A quarterly report prepared by the cashier section shows the total value of permits issued during fall quarter to be \$156,026.

There were five home football games during fiscal year 1985. Season ticket purchases receive individual game tickets for each of the five home games. The ticket reconciliation for fiscal year 1985 showed that 1,393 individual game tickets sold as part of season ticket packages, or an average of 278 tickets per game, were unaccounted for. A reconciliation of tickets sold to receipts collected was not performed until after the season was completed. This discrepancy was never investigated and resolved. Also, the fiscal year 1985 basketball season reconciliation showed 48 tickets unaccounted for. This discrepancy was also never resolved. After our audit, MSU determined that most of the unaccounted for tickets had been complementary tickets given to players' parents and others.

An essential part of any reconciliation is to follow up on any unaccounted for items in order to determine the cause for the discrepancy. This follow up is much easier if the reconciliation is done on a timely basis.

### *RECOMMENDATION:*

6. *Reconciliations of athletic tickets and parking permits should be performed on a timely basis. Any discrepancies should be promptly investigated and resolved.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Positive time reporting is not required for all non-faculty employees at MSU.

A memo from the Department of Employee Relations (DOER) dated June 10, 1981, and sent to all agency heads explained that, effective July 1, 1981, all executive branch employees would be required to be on a positive time reporting system, with the major exception being the faculty in the community college and state university systems.

In our fiscal year 1982 management letter, we reported that MSU was not requiring all non-faculty employees to prepare time reports and, that for those employees who were preparing time reports, MSU was not requiring the employees to report the actual number of hours worked in a pay period. Rather, a certain number of hours was assumed to have been worked and only adjustments to those hours were required to be entered on the time sheet by the employee.

Beginning with the pay period ended April 4, 1984, MSU required all classified employees to report actual hours worked each day of the pay period on their time reports. However, MSU still does not require employees covered by the Minnesota State University Association of Administrative and Service Faculty (MSUAASF) contract to prepare time reports.

## MANKATO STATE UNIVERSITY

As a result of inquiries from the State University System, DOER, in a memo dated August 10, 1983, exempted the universities from using a standard positive time reporting system for MSUAASF employees. However, it did require the development of some type of alternative time reporting system which would meet the university's needs, but also satisfy the following requirements:

- The employee and supervisor are required to sign a document which provides advance support for the employee's entitlement to the amount of their biweekly payroll warrant.
- It serves as a source document for updating the employee's leave records and permits those records to be maintained in an orderly, timely basis.

By not implementing the required time reporting system, MSU is not in compliance with the guidelines established by DOER, and cannot provide support for the employees biweekly payroll warrant and leave records.

### *RECOMMENDATION:*

7. *MSU should comply with DOER guidelines by requiring employees covered by the MSUAASF contract to submit biweekly time reports as required by DOER.*

MANKATO STATE UNIVERSITY

III. STATUS OF PRIOR RECOMMENDATIONS  
AND

PROGRESS TOWARD IMPLEMENTATION

Positive time reporting is not required for all non-faculty employees at MSU.

1. MSU, in conjunction with the Board office, should work with the DOER to establish an acceptable positive time-reporting system for all non-faculty employees of the State University System.

*RECOMMENDATION PARTIALLY IMPLEMENTED. Beginning with the pay period ended April 3, 1984, all classified employees of the university were required to use a positive time-reporting system. However, employees covered by the Minnesota State University Association of Administrative and Service Faculty (MSUAASF) contract still do not prepare time reports. See current recommendation #7.*

Mankato State University is not using the proper forms in their processing of payroll.

2. MSU should either adopt the standardized uniform biweekly time report and the request for leave and overtime forms or seek approval from the DOER to use their own forms.

*Recommendation Implemented. On August 10, 1983, the State University System received approval from the Department of Employee Relations to use their own time reports.*

The written procedures for the letter-of-credit operation needs strengthening.

3. The accounting procedures manual should be updated to reflect the new procedures in use for federal grants drawn on the letter-of-credit basis.

*Recommendation Implemented. As of October 19, 1983, the accounting procedures manual was updated to reflect current procedures for letter-of-credit drawdowns of federal grant funds.*

Written evidence to support that goods have been received is not being obtained from the MSU library.

4. Receiving reports or other written evidence that goods have been received should be used at the MSU library. These receiving reports should be compared with purchase orders and vendor invoices before payments are made.

## MANKATO STATE UNIVERSITY

*Recommendation Implemented. The MSU library began using a receiving stamp in fiscal year 1984. Although there was no signature on the stamp, MSU personnel indicated they would begin requiring the person receiving the goods to sign the receiving stamp.*

Control over the purchasing function at the MSU library could be strengthened by separating certain duties.

5. The purchasing function should be separated from the receiving function at the MSU library.

*Recommendation Implemented. As of March 1984, the purchasing and receiving functions at the MSU library were separated and the duties were noted in the appropriate employee position description.*





OFFICE OF THE PRESIDENT/(507) 389-1111

MANKATO, MINNESOTA 56001

July 8, 1986

Jeanine Leifeld  
Audit Manager  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Ms. Leifeld:

Your draft management letter sent to me May 1, 1986, and your follow up memo of June 17, 1986 have been reviewed by Victor Colway, Vice President for Fiscal Affairs, and Dean Trauger, Director of Business Affairs. Enclosed is their response to the recommendations that came out of your audit of Mankato State University's financial records for fiscal years 1983, 1984, and 1985.

As always, we find the audits conducted by your office to be very useful and we feel that they help us in the improvement of the University's business affairs.

Sincerely,

*Margaret R. Preska*

Margaret R. Preska  
President

enclosures

MANKATO STATE UNIVERSITY  
RESPONSE TO OLA AUDIT  
FISCAL YEARS 1983, 1984, 1985

RECOMMENDATIONS:

1. MSU should work with the MSU Foundation to clarify the role of each in the solicitation of funds.
2. Foundation management and policy decisions should be autonomous from the university, including the following:
  - \* purchases should be approved by foundation staff,
  - \* checks written in the foundation account should include at least the foundation signature, and
  - \* scholarships awarded should be approved by the foundation.
3. MSU should make clear to potential donors whether the university or the foundation is actually soliciting the funds and to whose account those contributions will be deposited when received. Foundation gifts should be acknowledged by the foundation on foundation letterhead.

RESPONSE:

We concur with these recommendations. Joe Farnham, Vic Colway and Dean Trauger have met with officers of the Foundation to discuss these recommendations and will continue to meet with them until specific policies and procedures are implemented consistent with these recommendations.

Responsible Persons: Joe Farnham & Dean Trauger  
Projected Completion Date: 7/1/87

4. MSU needs to establish procedures to ensure that funds received from the MSU Foundation are spent in the manner intended by the foundation and the donors.

RESPONSE:

We agree with this recommendation. However, it is important to note that the policy referred to in this finding relates to expenditures that are made directly from the Foundation's checking account rather than transfers from the Foundation to MSU accounts.

Consequently, it is the Foundation Board's responsibility rather than MSU's to have policies and procedures that deal with the direct expenditure of donations from the Foundation's checking account. This becomes a complex matter since University staff are involved in the record keeping and University Department Head's making decisions on the expenditure of Foundation funds from the Foundation's bank account. Consequently, the Foundation Board may have to ask that some changes be made in the receipting of gifts by the Development Office and additional budgetary controls be put into the Foundation's accounting system if the Foundation Board decides to continue depositing annual fund drive donations into the Foundation's bank account.

We do agree that MSU should monitor all funds transferred from the Foundation to MSU to assure that the funds transferred to MSU are expended according to the Foundation Board's and the donor's wishes. Examples of transfers include scholarship payments to students, purchase of equipment for Electrical Engineering and salary payments to graduate assistants. A form will be developed which designates the intended purpose of the funds as they are transferred from the Foundation to MSU.

5. Mankato State University should ensure adequate separation of duties over theater ticket sales.

RESPONSE:

We concur with the recommendation and we have made some progress on improving the internal control over the sale of theater tickets during FY86. A new Box Office staff person was employed and some modifications to the ticket accountability procedures with the Theatre Arts Department were implemented. Efforts are presently under way to further improve the internal control over theatre ticket sales for fiscal year 1987. The Business Office will conduct ticket reconciliations immediately following each theatrical production, and will obtain the remaining unsold tickets and receipt deposits from the Theatre Arts Box Office to achieve this task.

Responsible Person: Bill Milow  
Projected Completion Date: September 1986

6. Reconciliations of athletic tickets and parking permits should be performed on a timely basis. Any discrepancies should be promptly investigated and resolved.

RESPONSE:

We concur with this recommendation. Although we were well aware of the need to perform reconciliations, we did not emphasize the timeliness aspect and reconciliations tended to be deferred until later in the quarter or the end of the fiscal year. All reconciliations for FY87 are now scheduled and will be performed as scheduled with any discrepancies in sales or deposits being identified immediately and reported on to the Director of Business Affairs and Vice President for Administrative Affairs (see attached Schedule A for reconciliation dates).

Responsible Person: Tippi Alm & Bill Milow  
Projected Completion Date: September 1986

7. MSU should comply with DOER guidelines by requiring employees covered by the MSUAASF contract to submit biweekly time reports as required by DOER.

RESPONSE:

We concur with this finding and recommendation. MSU staff will implement a positive time reporting system that meets the requirements cited in this finding.

Responsible Person: Dick Fisher  
Joe Holland  
Dean Trauger

Project Completion Date: September 15, 1986

Attachment

MANKATO STATE UNIVERSITY  
SCHEDULE OF  
TICKET RECONCILIATION DATES

FY '87

ATHLETIC TICKETS (Season Tickets)

Mens Football	- September 29, 1986
Mens Hockey	- December 22, 1986
Mens Basketball	- December 15, 1986
Womens Volleyball	- October 1, 1986
Womens Basketball	- December 29, 1986

THEATER TICKETS

Peter Pan	- November 14, 1986
Noises Off	- December 5, 1986
Quilters	- February 13, 1987
Mac Beth	- March 13, 1987
Pirates of Penzance	- May 22, 1987

PARKING

Fall quarter	- December 19, 1986
Winter quarter	- April 3, 1987
Spring quarter	- June 26, 1987
Summer quarter	- September 4, 1987