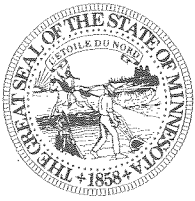


**STATE UNIVERSITY SYSTEM
BEMIDJI STATE UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

AUGUST 1986



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. Lowell R. Gillett, President
Bemidji State University

Audit Scope

We have completed a financial and compliance audit of Bemidji State University (BSU) 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 June 6, 1986.

The objectives of the audit were to:

- study and evaluate certain Bemidji State University internal accounting control systems, including a review of tuition receipts, payroll, disbursements through the statewide accounting system, imprest cash, fixed assets, 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 BSU 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 of internal control are to provide management with reasonable, but not

Senator Randolph W. Peterson, Chairman
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absolute, assurance 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 BSU 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 BSU. The purpose of our testing of transactions was to obtain reasonable assurances that BSU 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 Bemidji 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 BSU activities accounted for through the statewide accounting system. However, during the course of our audit, we also reviewed and tested the university's relationship with the BSU Foundation. Audit techniques used in this area 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 BSU 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.

During this audit, we conducted interim work on our fiscal year 1986 audit of material State University System federal programs. Testing relating to these programs will be done at a later date. Work done at this time was not sufficient to express an opinion on internal accounting controls or compliance with finance-related laws and regulations for BSU federal programs.

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Conclusions

In our opinion, except for those issues raised in Section II, recommendations 1 through 3, internal controls over tuition receipts, payroll, disbursements through SWA, imprest cash, fixed assets, and contracts in effect as of April 30, 1986, 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 BSU, 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 BSU taken as a whole.

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

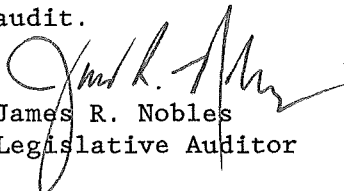
Compliance with finance-related laws and regulations applicable to federal programs administered by BSU, the Revenue Bond Fund, and the College Activity Fund was not evaluated by us, and accordingly, we do not express an opinion on agency compliance for those programs.

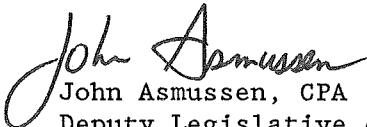
In our opinion, for the three years ended June 30, 1985, BSU properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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.

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 BSU progress on implementing these recommendations. A summary of the progress made on 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 BSU staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 6, 1986

BEMIDJI 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
Jim Riebe	Auditor-in-Charge
Judy Holthusen	Staff Auditor
Ellen Merlin	Staff Auditor
Kathy Quandt, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Bemidji State University on June 6, 1986:

Dr. Lowell Gillett	President
Thomas Faecke	Vice-President for Administration
Gerald Amble	Director of Accounting Services
Robert Frazey	Director of Financial Aid

BEMIDJI STATE UNIVERSITY

I. INTRODUCTION

Bemidji State University (BSU), established in 1919, is one of Minnesota's seven state universities. The state universities are governed by the State University Board. Board members are appointed by the Governor and subject to confirmation by the state senate. Dr. Lowell Gillett, appointed as president by the Board, serves as the immediate supervisor at BSU.

A full range of liberal arts courses are offered at BSU. These courses are funded primarily through student tuition and fees, and also state appropriations from the General Fund. Educational operations of the university are generally accounted for through the statewide accounting system, while other activities are handled through local bank accounts and are accounted for through the State University System. These other activities include federal financial aid programs, dormitories, and student union accounts which are included in the Revenue Bond Fund, and University Activity Funds. These activities are governed by policies established by the SUB.

During fiscal years 1983-1985, Bemidji State University collected \$12,802,245 in tuition, and spent \$50,806,145 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	\$3,614,863	11%	\$15,552,559	12%
1984	\$4,322,033	10%	\$16,782,048	12%
1985	\$4,865,349	10%	\$18,471,538	12%

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	4,634	4,013
1983 - 84	4,394	3,787
1984 - 85	4,492	3,754

BEMIDJI STATE UNIVERSITY

II. CURRENT FINDINGS AND RECOMMENDATIONS

The authorized level of the imprest cash account at Bemidji State University (BSU) is being exceeded.

Under the authority of Minn. Stat. Section 15.191 Subd. 2, the Department of Finance authorized an imprest cash fund of \$12,500 for BSU. This account is comprised of \$8,750 from the General Fund and \$3,750 from the Revenue Bond Fund.

BSU imprest cash funds are used primarily for tuition refunds, travel advances, and faculty improvement grant advances which are used for faculty tuition, conferences, and travel expenses. In recent years, the level of activity in the imprest cash account has expanded significantly due to increases in international travel advances and faculty improvement grants. Tuition refunds have also increased; however, these payments are reimbursed to the imprest cash account promptly. In contrast, international and other travel advances can be very large and may be outstanding for several months by the time the travel is completed, the advance is settled through the statewide accounting system, and the imprest account is reimbursed. One travel advance paid with imprest cash funds totaled approximately \$2,300 and was outstanding for approximately ten weeks. Also, miscellaneous expenses of \$2,000 and \$5,000 were paid through the imprest cash account.

The imprest cash funds are held in a local bank account together with money from other sources including local activities and federal funds. Between September 1984 and March 1986, the imprest cash account had a negative balance of between \$7,061 to \$49,568. In effect, unauthorized borrowing from the other money held in the local bank account finances these deficit balances.

To reduce the deficits in the imprest cash account, BSU staff have recently requested that the authorized amount of the account be increased to \$35,000. To avoid exceeding the new authorized amount (if the request is approved), BSU staff should also process large travel advances and some other disbursements--currently being paid with imprest cash funds--directly through the statewide accounting system, if possible. The Department of Finance staff have indicated they would be willing to work with BSU staff to determine the dollar amounts on travel advances which could be processed through SWA.

RECOMMENDATION:

1. *The authorized amount of the imprest cash fund at BSU should not be exceeded.*

BEMIDJI STATE UNIVERSITY

PRIOR RECOMMENDATION NOT IMPLEMENTED: Unclassified non-faculty employees are not submitting biweekly time reports and some unclassified personnel and their supervisors are not signing leave requests.

A Department of Employee Relations memo dated June 10, 1981, required positive time reporting by all executive branch employees effective July 1, 1981. Positive time reporting consists of employees submitting biweekly time reports and leave requests to support payroll costs. The DOER policy exempts faculty of the State University and Community College Systems from having to submit a biweekly time report.

BSU has not required unclassified non-faculty employees including university vice-presidents, managers, and employees represented by the Minnesota State University Association of Administrative and Service Faculty (MSUAASF) to submit biweekly time reports. Administrative staff at BSU are concerned that if union employees are required to record all hours worked, including overtime hours, the union may use this information in contract negotiations which could increase future payroll costs. However, on April 30, 1985, the State University Board (SUB) issued a memo that explained the implementation of positive time reporting throughout the State University System.

One method of positive time reporting suggested by the SUB allows unclassified non-faculty staff to sign a statement that they have completed their job responsibilities for the pay period. It does not require the employee to record total hours worked each day during the pay period. This method has been approved by DOER and has been adopted by some state universities. The BSU personnel section designed similar time reports to be used by unclassified non-faculty staff. This system has been approved internally but has not been implemented. Therefore, BSU is not in compliance with DOER and the SUB positive time reporting policies.

Positive time reporting policies also require all employees, including faculty, to document and obtain approval for all leave taken. At BSU some unclassified employees--including faculty--and their supervisors do not sign leave records. For example, each teaching division submits a listing of leave taken by faculty during the pay period. The list is only signed by the preparer and not by the employee or the employee's supervisor. By not certifying the leave taken, errors in sick and vacation leave may go undetected. Errors in sick leave balances may also affect any severance payments which are based on the sick leave balance at the date of retirement. Leave requests for faculty are particularly important since they are not required to complete biweekly time reports which would indicate leave taken during the pay period and would be approved by supervisors.

RECOMMENDATIONS:

2. *BSU should require positive time reporting for unclassified non-faculty employees.*
3. *Documentation supporting leave taken by all unclassified employees, including faculty, should contain the signature of the employee and the employee's supervisor.*

BEMIDJI STATE UNIVERSITY

STATUS OF PRIOR AUDIT RECOMMENDATIONS

AND

PROGRESS TOWARD IMPLEMENTATION

The status of prior audit recommendations #3, 11, 12, 20, 21, 22, and 23 was not determined as part of this audit. These recommendations were developed in order to assist BSU in preparing their financial statements in accordance with the National Association of College and University Business Officers (NACUBO) reporting standards. However, since these financial statements are currently being used primarily for internal management purposes, compliance with NACUBO standards, while advisable, is not required.

Controls over the third party billing system do not ensure that all accounts have been billed and payment has been received.

1. A subsidiary accounts receivable system should be established for third party billing which could provide control totals and the status of the third party accounts.

Recommendation Implemented. BSU established a subsidiary accounts receivable system for third party billing effective spring quarter of fiscal year 1984.

2. The billing process should be performed as soon as possible after the drop/add period and early enough so that payment is received before the end of the quarter.

Recommendation Implemented. Third parties were billed promptly for winter quarter 1985-1986.

The accounting for receivables at BSU needs improvement.

4. Control totals should be derived for the accounts receivable subsidiary ledger, and this amount should be reconciled to the control account total on a regular basis.

Recommendation Implemented. In fiscal year 1985, control totals were added to the accounts receivable subsidiary ledger and a reconciliation to the control account is now performed each quarter.

5. The aging of accounts receivable should be completed on a more regular basis to assist BSU in their determination of collection procedures for overdue accounts.

Recommendation Substantially Implemented. Although a formal aging of accounts receivable is not completed, accounts receivable balances are closely monitored, second billings are prepared promptly, and uncollectible accounts receivable are written off yearly.

BEMIDJI STATE UNIVERSITY

General journal entries and adjustments made to the accounts receivable system are not supported by adequate documentation.

6. All general journal entries and adjustments made to the accounts receivable system should be supported by a detailed explanation, any supporting calculations or documents, and the signature of an authorized employee approving the entry.

Recommendation Implemented. During fiscal year 1983, the accounts receivable supervisor began reviewing and approving all general journal entries and adjustments except adjustments within a student's account.

A comprehensive, current accounting procedures manual is not in use at BSU.

7. A comprehensive accounting procedures manual, based on the accounting policies established by the Board office, should be developed for use at BSU.

Recommendation Implemented. A comprehensive accounting policies and procedures manual was completed in January 1985.

There is a lack of separation of duties in several accounting functions at BSU.

8. The incompatible functions of each accounting area should be separated so that one individual does not have complete control over the processing of accounting transactions for that system.

Recommendation Implemented. During fiscal year 1983, BSU reassigned accounting functions to different employees where feasible. In other areas, procedures require additional review and authorizations by supervisors to ensure that one individual does not have complete control over the processing of transactions within a particular accounting system.

The general student advance account is not being reconciled to the listing of students in the account.

9. After a reasonable effort has been made by BSU to contact former students to whom money is owed, any excess balances in the general student advance account should be transferred to the General Fund. A listing should be kept showing each student's name and the amount transferred.

Recommendation Implemented. Excess balances in the general student deposit account were transferred to the General Fund in October 1982. A listing of each student's name and amount transferred is kept on file. This procedure is performed yearly.

BEMIDJI STATE UNIVERSITY

10. A reconciliation should be completed on a periodic basis to determine any excess balances, and to ensure that the amount in the account equals the amount on the student listing. In order to do this, the student listing should include a total of the balance on the student listing.

Recommendation Implemented. Since July 1985, a reconciliation between the student deposit account and the listing of students with balances in the account has been performed on a regular basis.

Disbursement procedures are not being properly followed.

13. BSU personnel should not process disbursements for payment unless there is adequate documentation indicating that the goods or services have been received and accepted. Upon completion of the payment processing, all disbursement documentation should be properly filed and readily available to provide an adequate audit trail.

Recommendation Implemented. Since July 1983, adequate documentation indicating the receipt of goods has been maintained and filed with other supporting documentation for disbursements at BSU.

The administration of equipment inventory needs improvement.

14. BSU personnel should reconcile the fixed asset addition forms to the fixed asset inventory list to ensure that all equipment purchases have been entered into SWFAIS.

Recommendation Substantially Implemented. BSU has developed procedures to reconcile the fixed asset additions to the fixed asset inventory list. However, due to the status of the Department of Administration Fixed Asset Records Management (FARM) System, BSU has not been able to complete the reconciliation on a consistent basis.

15. BSU personnel should periodically conduct a physical inventory count and reconcile it to the fixed asset inventory list to ensure that this list is representative of the items existing at BSU.

Recommendation Implemented. BSU conducted a physical inventory count during October 1984. The count was reconciled to the fixed asset inventory list and adjustments are currently being processed on the Fixed Asset Records Management System.

Unclassified employees other than faculty members are not preparing bi-weekly time reports.

16. BSU, 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 NOT IMPLEMENTED. See current finding and recommendation #2.

BEMIDJI STATE UNIVERSITY

Some faculty at Bemidji State University are not submitting leave requests.

17. All faculty members at BSU should submit a leave request whenever they take leave. The leave requests should be signed by the faculty member and approved by a supervisor.

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendation #3.

The accountability for state and federal grants could be improved.

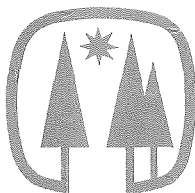
18. BSU should contact the Minnesota Historical Society to determine the disposition of the unexpended funds.

Recommendation Implemented. BSU contacted the Minnesota Historical Society in July 1983, and obtained an extension to use the unexpended funds.

19. The grant supervisor at BSU should initiate procedures to obtain and maintain complete documentation on file for all grants, including:

- a grant agreement between the university and the sponsoring organization;
- a narrative describing the grant objectives, including a budget;
- summaries of receipts and disbursements by grant, including reconciliation to state and federal financial reports; and
- financial reports submitted to the sponsoring organization.

Recommendation Implemented. Since September 1985, the grant supervisor at BSU has established procedures to obtain and maintain the appropriate grant documentation.



August 6, 1986

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

Dear Ms. Leifeld:

I am in receipt of your draft management letter summarizing the results of the financial and compliance audit of Bemidji State University for the three years ending June 30, 1985. The following is our written response to your three current findings and recommendations:

Bemidji State University will bring the activity within the imprest cash account under revised operating guidelines so that the new authorized amount of \$30,000 will not be exceeded. A copy of the July 29, 1986 memorandum from Geri Benting, Assistant Commissioner of the Department of Finance, authorizing the increase to \$30,000 is attached.

Bemidji State University is implementing a positive time reporting form for unclassified non-faculty employees. A draft copy of the form is attached and we anticipate implementation within thirty days. B.S.U.'s Personnel Director has scheduled informational meetings with the various bargaining groups to emphasize our need for cooperation and compliance.

Bemidji State University recognizes the need for both the employees and employee's supervisor signatures on the documentation supporting leave taken by all unclassified employees, including faculty. This will become effective by September 1, 1986.

Should you have any questions concerning our proposed course of action on a particular recommendation, contact Mr. Thomas A. Faecke, Vice President for Administrative Affairs at (218) 755-2012. Thank you for your recommendations on improving our accounting procedures and controls.

Sincerely,

Lowell R. Gillett
President

Enclosures (2)

cc: Mr. Thomas A. Faecke, Vice-President for Administrative Affairs
Mr. Gerald S. Amble, Director of Accounting Services

STATE OF MINNESOTA

DEPARTMENT of Finance

Office Memorandum

TO: Gerald S. Amble
Director of Accounting Services
Bemidji State University

DATE: July 29, 1986

FROM: Geri Benting 
Assistant Commissioner
Department of Finance

PHONE: 296-1699

SUBJECT: Imprest Cash Account Increase

Under authority of Minnesota Statutes Section 15.191, your request to increase your Imprest Cash Account by \$17,500 to \$30,000 is approved.

Please review this increase with Roger Larson to determine if a portion of this increase should come from the State University Board Revenue Fund.

ES/GB/RSM/sm/270T

cc: Tom Casey, Department of Finance
Roger Larson, State University System
Tom St. Martin, Department of Finance
Legislative Auditor

BEMIDJI STATE UNIVERSITY

Office Memorandum

DATE : July 27, 1986

TO : Mr. Roy Muscatello, Statewide Accounting Director

FROM : Gerald S. Amble,  Director of Accounting Services-Bemidji State University

SUBJECT: May 5, 1986 Memo Requesting Increase to Imprest Cash.

I would like to adjust my request for an increase of \$22,500.00 downward to \$17,500.00. The Legislative Auditors felt that we should increase enough so as to keep this account in the black. Even with this increase it will be difficult, but I feel we can make it work by implementing some procedural changes within our institution.

Thank you for your assistance and patience.


cc: Mr. Thomas Faecke, Vice-President for Administrative Affairs

BEMIDJI STATE UNIVERSITY

Office Memorandum

DATE : May 5, 1986

TO : Roy Muscatello, Statewide Accounting Director
Tom St. Martin, Budget Director

FROM : Gerald S. Amble, Director of Accounting Services - Bemidji State Univ.


SUBJECT: Imprest Cash Account

Bemidji State University's Imprest Cash Account has been running monthly Deficit balances of \$15,000 to \$50,000 for the past two years and project even larger deficits in fiscal year '87. We request an increase to the account in the amount of \$22,500 bringing our authorized balance from \$12,500 total to \$35,000 total.

Bemidji State University's major activity is refunds to students. Travel advances and faculty Improvement Grants travel advances have placed a tremendous increase on this fund. Tuition rates have increased as has costs of travel so the amount advanced or refunded is larger per transaction and we have many more transactions.

Your consideration and approval of a \$22,500 increase to Bemidji State University Imprest Cash Fund will be much appreciated. Thank you.

cc: Mr. Tom Faecke

MANAGERIAL MSUAASF PAYROLL VERIFICATION

Bemidji State University

Name: _____

INSTRUCTIONS:

DRAFT

Soc. Sec. No. _____ - _____ - _____

Please retain one copy of the form and submit the original to the Payroll Office at the close of each pay period.

VERIFICATION OF EMPLOYMENT:

LEAVE TAKEN DURING PAY PERIOD:

Pay Period _____ to _____

(Please attach copies of the leave request for the pay period.)

During the pay period set forth above, I have fulfilled my contractual obligations to the University, including obligations relative to the amount of time devoted to University-assigned duties. During this pay period, I took leave time on the days specified. Such leave time was approved by the President or his/her designee in writing on the appropriate form.

	<u>Total Hours</u>	<u>Dates</u>
Annual Leave	_____	_____ - _____
Unpaid Leave	_____	_____ - _____
Sick Leave	_____	_____ - _____
Other (specify nature)	_____	_____ - _____
_____	_____	_____ - _____
_____	_____	_____ - _____

Supervisor's Signature DATE

Employee's Signature DATE