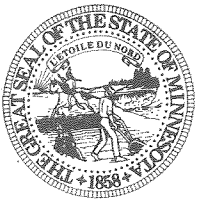


**STATE UNIVERSITY SYSTEM
MOORHEAD STATE UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1987**

JULY 1988

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Robert L. Carothers, Chancellor
State University System

Members of the State University Board

Dr. Roland Dille, President
Moorhead State University

Audit Scope

We have completed a financial and compliance audit of Moorhead State University (MSU) for the three years ended June 30, 1987, 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 March 4, 1988.

We have issued separate management letters to the State University System, dated March 24, 1988 and March 26, 1987, which include the audit of major federal programs administered by MSU for the fiscal years ended June 30, 1987 and 1986.

The objectives of this audit were to:

- study and evaluate certain Moorhead State University internal accounting control systems, including a review of tuition receipts, payroll, disbursements through the statewide accounting system, imprest cash, federal student financial aid, bookstore operations, and receipts and disbursements from the University Activity Fund;
- verify that financial transactions 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 the university's internal accounting system; and

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- determine the status of prior audit recommendations.

Moorhead State University is affiliated with a separate nonprofit foundation. The university and the foundation have entered into a written agreement specifying their relationship. Pursuant to the agreement, MSU personnel are responsible for providing various administrative services for the foundation. The foundation maintains an independent Board of Directors who oversee foundation activities and are responsible for policy-making decisions. The foundation is audited by a private CPA firm. We did not audit the foundation. We did, however, review the relationship with the foundation and performed limited testing of the administrative services provided by university personnel to the foundation. We satisfied ourselves that the foundation is sufficiently autonomous from the university and that the administrative services provided by the university are subject to adequate controls.

Management Responsibilities

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 of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations and recorded properly.

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

The Revenue Fund is audited each year by a private CPA firm for the limited purpose of expressing an opinion on the financial statements of the fund. We have not placed any reliance on the work done by other auditors on the Revenue Fund in connection with this audit. Although our audit did include a review of internal controls and the performance of substantive tests for certain material components of the State University Revenue Fund activities administered by MSU for the three years ended June 30, 1987, our limited scope precludes us from rendering audit opinions on these activities.

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We did not audit major federal programs at MSU for the fiscal year ended June 30, 1985. Those programs were audited by a private CPA firm for that year. We did not review the work done by other auditors on the federal programs and have placed no reliance on their work.

Conclusions


In our opinion, except for those issues raised in Section II, findings #1-3, and subject to the effects, if any, of the federal programs and Revenue Fund activities which we did not audit as described in the Scope Limitations section of this letter, the MSU system of internal controls in effect as of December 31, 1987, taken as a whole, was 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.

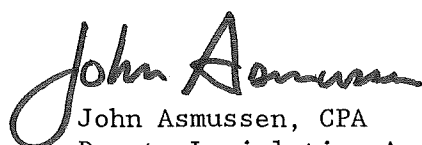
In our opinion, subject to the effects, if any, of the federal programs and Revenue Fund activities which we did not audit as described in the Scope Limitations section of this letter, for the three years ended June 30, 1987, MSU administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, and subject to the effects, if any, of the federal programs and Revenue Fund activities which we did not audit as described in the Scope Limitations section of this letter, for the three years ended June 30, 1987, MSU properly recorded, in all material respects, its financial transactions on the statewide accounting system, or the university accounting system as appropriate.

The recommendations included in this report are presented to assist the university in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing MSU's progress on resolving these findings. A summary of the progress made on audit recommendations discussed in our last audit report covering the year ended June 30, 1984, dated August 26, 1985, 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 6, 1988

MOORHEAD STATE UNIVERSITY

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Jerome McCallson, CPA	Auditor-in-Charge
Chris Buse	Staff Auditor
Jean Mellett	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Moorhead State University on March 4, 1988:

Verlee Thies	Business Manager
Merryll Fawbush	Accounting Officer
Mark Rice	Accounting Officer

MOORHEAD STATE UNIVERSITY

I. INTRODUCTION

Moorhead 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. Roland Dille has served as university president since 1968.

Operations of the university are financed mainly by student tuition and fees, and state appropriations from the General Fund. Financial activities are accounted for in the statewide accounting system and the university accounting system which includes the local University Activity Fund.

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

	School Year		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Enrollment:			
Full-time equivalent	5,896	6,257	6,551
Head count	7,520	8,034	8,157

Moorhead State University collected the following current fund receipts and made the following expenditures during the audit period. These amounts were taken from the university's annual reports.

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Current Receipts:			
Tuition and fees	\$ 7,649,272	\$ 8,695,979	\$ 9,395,464
State appropriations allotted	16,259,325	16,381,122	17,566,166
Federal grants and contracts	3,702,041	4,582,550	4,687,802
State grants and contracts	262,698	254,830	300,834
Private grants and contracts	108,286	97,826	60,520
Sales and services of educational activities	101,591	105,754	113,804
Sales and services of auxiliary enterprises	7,507,597	7,964,781	8,483,141
Other resources	<u>345,547</u>	<u>429,607</u>	<u>470,571</u>
Total Receipts	<u>\$35,936,357</u>	<u>\$38,512,449</u>	<u>\$41,078,302</u>
 Total Expenditures and Transfers	 <u>\$35,623,691</u>	 <u>\$37,789,373</u>	 <u>\$40,986,862</u>
 Expenditures:			
Salaries and wages	62.9%	64.0%	62.7%
Operating expenses	30.3	31.6	30.2
Transfers and capital outlays	<u>6.8</u>	<u>4.4</u>	<u>7.1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

MOORHEAD STATE UNIVERSITY

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal controls over cash receipt procedures need to be strengthened.

Moorhead State University (MSU) receipt transactions are not adequately authorized and reviewed by accounting supervisors. Proper authorization and review of transactions is especially important in a system such as MSU's because the university's receipt procedures do not provide for an adequate separation of receipt duties.

Currently, three cashiers at MSU basically assume responsibility for the entire receipt transaction cycle. Present university receipt procedures require cashiers to collect and record cash, balance their own cash drawers, and prepare receipt documents such as daily cash reports and deposit slips. The head cashier is responsible to reconcile the daily computer transaction report, which identifies the preceding day's receipt transactions, and to prepare the special depository report and the check that transfers funds to the state treasury.

The documents prepared by the cashiers are not reviewed or approved by supervisors. Moreover, cashiers may even process sensitive transactions such as credit adjustments and tuition waivers, without obtaining special authorization from accounting supervisors. Because inadequate separation of duties can permit errors and irregularities to go undetected, Moorhead State University staff need to revise receipt procedures to provide for adequate supervisory review and written approval for receipt transactions.

MSU also needs to revise insufficient check (NSF) procedures to ensure that the same person does not authorize write-offs and collect cash. Currently, the collections officer who authorizes write-offs may also receive repayments from students. Although the volume of these checks is small, inadequate separation of duties can permit irregularities to go undetected. Therefore, repayments should only be received by cashiers.

MSU business office cashiers processed over \$9 million of tuition receipts in fiscal year 1987. Because tuition receipts are significant, MSU needs to devise procedures to ensure that internal controls over receipts are strong.

RECOMMENDATION

- Separation of duties should be improved as follows:
 - supervisory review and written approval should be required for the special depository report, including the supporting documentation used in balancing cash and verifying computer transaction reports which contain special waiver and credit entries; and

MOORHEAD STATE UNIVERSITY

- duties of the collection officer should not include both the write-off of bad checks and collection of cash.

2. Accounting control procedures for non-routine cash receipts can be improved.

In fiscal years 1985, 1986, and 1987, the Continuing Education Department collected receipts for non-credit courses of \$83,302, \$77,685, and \$62,741, respectively. Similar amounts for credit courses could not be readily determined. The Continuing Education Department does not keep a record of the receipts which its staff bring to the cashier for deposit. Neither does the department receive business office deposit reports which could be used to verify these receipts are being recorded accurately. Absent this control, the possibility exists that errors or irregularities in the deposit process may not be detected. The business office has agreed to provide the Continuing Education Department with receipt reports which can be used by them to verify the department's accumulated deposits.

MSU also collects a small amount of tuition receipts from late registrants. These funds are not being deposited and recorded in a timely manner. When a student's registration is completed at MSU, the tuition and fees the student owes will be recorded on the computerized registration system. Cashiers can then record the student's payment into the system. Students who miss the registration deadline are still instructed to pay tuition and fees, even though their registrations have not been recorded on the computerized registration system. Registration information on these students may not appear on the system for several days. As a result, the business office delays the recording and deposit of these receipts.

The holding of late registration receipts does not seem necessary and is not in compliance with Department of Finance Policy and Procedure No. 06:06:01 which requires the daily deposit of receipts totaling \$250 or more. MSU staff should be able to deal with exceptions on daily reconciliation reports and/or by maintaining a suspense account for amounts paid prior to registrations being recorded on the registration system.

RECOMMENDATIONS

MSU should require that:

- the Continuing Education Department keep a record of its deposits and reconcile its receipts to business office records; and
- tuition receipts from late registrants be promptly recorded and deposited.

MOORHEAD STATE UNIVERSITY

3. Cash management procedures over federal funds need to be strengthened.

Moorhead State University's PELL, SEOG, and Perkins federal financial aid awards for fiscal year 1988 are \$3,894,162, \$308,176, and \$232,274, respectively. The university draws these funds by wire transfer using a letter-of-credit agreement with the federal government. The federal funds initially are deposited into the school's agency account.

Typically the registration and tuition receipt process is as follows. Registration for classes occurs over one or two days. Approximately one week later tuition and fee payments are due. At this time students also receive financial aid checks from the university. Then about one month after fees have been collected, the university transfers tuition and fee receipts to the state treasury. Ideally the federal funds would have been received by MSU by the time the university issues financial aid checks to students. However, during the 1987-88 fall and winter quarters, MSU staff did not draw sufficient funds to cover the payment of financial aid checks to students. As a result, the university's other agency accounts which contain grants or student organization funds subsidized payments for these federal programs. For example, in fall quarter of 1987, the university had issued \$555,804 in financial aid to students by October 9, 1987, but had received only \$305,295 in federal funds which were deposited in the agency account. Similarly, in winter quarter, payments of over \$240,000 were made before the required federal funds were requested.

Moorhead State University staff invests non-federal agency account funds. Because non-federal agency account funds were required to subsidize federal program expenditures, the agency accounts potentially lose investment income when federal funds are not requested in a timely manner. In the future, university staff indicated that they should be able to time PELL, SEOG, and Perkins drawdowns to correspond with the actual payments of program expenses.

In a related matter, tuition receipts from all students, including students receiving financial aid, are required to be deposited into the state treasury. Generally these transfers have not been made by MSU for one month or more after the tuition has been collected. This is a significant delay considering financial aid tuition payments alone total over \$1,000,000 each quarter at MSU. In part, financial aid tuition receipts are not available to be transferred from the financial aid accounts to the treasury because of the delay in requesting federal funds. However, the delay also applies to tuition collected from students not receiving financial aid. For example, during fall quarter of 1987, students who did not receive financial aid were required to pay tuition between September 16-18. School staff, by contrast, transferred tuition for financial aid students to the state treasury on October 16. Again, in winter quarter, non-financial aid students paid tuition between December 7-9; yet tuition for students receiving financial aid was not deposited in the state treasury until January 8, 1988. Tuition for some financial aid students was not deposited until the end of January.

MOORHEAD STATE UNIVERSITY

Staff explained that tuition for financial aid students is not transferred to the state treasury on regular tuition payment dates because staff are very busy at the beginning of each school quarter. However, they have agreed to transfer tuition payments as soon as practical in the future so that the state can maximize investment income on these funds.

RECOMMENDATION

- Federal funds for students receiving financial aid should be drawn down to correspond with the timing of payments made directly to students and so that tuition for these students can be deposited into the state treasury in a timely manner. These transfers to the treasury should occur as soon as practical after student registration.

MOORHEAD STATE UNIVERSITY

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Monitoring unexpended private grant balances at Moorhead State University should be improved.

1. MSU should periodically review all completed grants and determine the disposition of any unexpended grant funds and close the grant accordingly.
2. MSU should work with the State University Board Office and the Attorney General's Office to pursue the origination of the funds in the administrative cost account and to determine the appropriate status and legal disposition of the money in the account.

RECOMMENDATIONS IMPLEMENTED. The grants have been reviewed, closed, and the transfers were made from the administrative cost account in December 1985.

Internal control procedures over bookstore operations at Moorhead State University need to be improved.

3. Incompatible duties in the receipt and disbursement functions should be performed by separate individuals in order to maintain effective controls over the functions.

RECOMMENDATION IMPLEMENTED. A new part-time employee has been hired which enabled receipt and disbursement duties to be adequately separated.

MOORHEAD STATE UNIVERSITY

A Century of Excellence / 1887-1987

Office of the President

July 6, 1988

Mr. Jim Riebe, Audit manager
Office of the Legislative Auditor
Veteran's Service Building
St. Paul, MN 55155

Dear Mr. Riebe:

This letter responds to the Letter of Recommendation prepared by the Legislative Auditor following the financial and compliance audit of Moorhead State University for the three years ended June 30, 1987.

1. Cash Receipts Internal Control

Recommendations: That supervisory review and written approval should be required in verifying computer transaction reports which contain special waivers and credit entries. The duties of the Collections Officer should not include both the write-off of bad checks and the collection of cash.

Response: We concur with the recommendation. The Accounting Officer responsible for the cash receipts area will initial and verify all computer transaction reports which contain special waiver and credit entries. When receipts are to be reduced due to NSF checks, the Collection Officer will notify by memo, the head cashier with a copy to the Intermediate Accounting officer. The Collections Officer will continue to direct all students to the cashiers to make repayments on all NSF checks.

2. Non-Routine Cash Receipts Internal Control.

Recommendation: That the Continuing Education department reconcile its receipts to Business Office records. The tuition receipts from late registrants be promptly recorded and deposited.

Response: We concur with the recommendation. The Continuing Education Department will keep a record of its deposits and reconcile its receipts to Business Office records. Computer programming changes will now allow payments for late registrants to be processed immediately for individuals who have a master file-record.

3. Federal Funds Cash Management.

Recommendation: That Federal funds be drawn down and deposited into the State Treasury in a more timely manner.

Response: We concur with the recommendation. Federal fund draws will be made more frequently and an initial reconciliation processed within the first three weeks of each quarter.

If you have questions concerning the financial and compliance audit recommendations and our accompanying responses, please let us know. We are always interested in learning how to improve our operations.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Roland Dille".

Roland Dille
President

RD:lcr