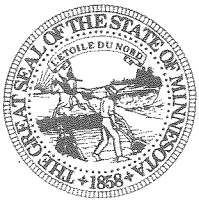


**STATE UNIVERSITY SYSTEM
WINONA STATE UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30 1987**

AUGUST 1988

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

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. John Kane, Acting President
Winona State University

Audit Scope

We have completed a financial and compliance audit of Winona State University (WSU) 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 of 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 May 27, 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 WSU for the fiscal years ended June 30, 1987 and 1986.

The objectives of the audit were to:

- study and evaluate certain Winona State University internal accounting control systems, including a review of tuition receipts, payroll, disbursements through the statewide accounting system, imprest cash, and federal student financial aid;
- 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 information on the statewide accounting system and the university's internal accounting system; and
- determine the status of prior audit recommendations.

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Management Responsibilities

The management of WSU is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments 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 WSU is also responsible for the university's compliance with laws and regulations. In connections with our audit, we selected and tested transactions and records from the programs administered by WSU. The purpose of our testing of transactions was to obtain reasonable assurances that WSU had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitations

We did not audit the State University System Revenue Fund for the three years ended June 30, 1987. 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.

We did not audit major federal programs at WSU for the fiscal year ended June 30, 1985. Major federal 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 place no reliance on their work.

We did not evaluate internal accounting controls at the Rochester Center. This Center is affiliated with Winona State University, and was in operation throughout our audit period. As of March 31, 1988, the major Rochester Center internal accounting control system was a receipts system. All other major control procedures, including those relating to disbursements through statewide accounting, payroll, and federal financial aid, were performed on the Winona State University campus.

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We were unable to audit certain WSU payroll records. Leave records for the period from July 1, 1984 through June 30, 1987, as well the timesheets for certain classified employees during that period, could not be located. These records are necessary to verify that transactions are appropriate.

Conclusions

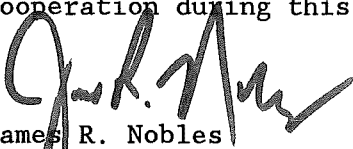
In our opinion, except for the issues discussed in Section II, findings 1, 3, and 4, and except for the issues discussed in our management letter dated March 24, 1988, finding 3, and subject to the effects, if any, of the Revenue Fund and Rochester Center activities which we did not audit as described in the Scope Limitations section of this letter, the WSU system of internal accounting controls in effect on March 31, 1988, 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 authorizations.


In our opinion, except for the issues discussed in Section II, findings 2 and 5, and except for the issues discussed in our management letter dated March 26, 1987, recommendations 1-3 and the issues discussed in our management letter dated March 24, 1988, findings 1, 2, and 4, and subject to the effects, if any, of the issues described in the Scope Limitations section of this letter, for the three years ended June 30, 1987, Winona State University administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, subject to the effects, if any, of the payroll records which could not be audited, as described in the Scope Limitations section of this letter, for the three years ended June 30, 1987, Winona State University properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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 WSU'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 15, 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We would like to thank the staff of Winona State University for their cooperation during this audit.


James R. Nobles
Legislative Auditor
October 6, 1988


John Asmussen, CPA
Deputy Legislative Auditor

WINONA 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
Joan Haskin	Staff Auditor
Mary Annala	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Winona State University on May 27, 1988:

Thomas Stark	President
Norm Decker	Vice President, Administrative Affairs
Jerry Varner	Business Office Manager
Erich Dornbusch	Receipts Supervisor
Joanne Lanik	Accounting Director
Debbie Sing	Purchasing Manager
Gennell Iverson	Loan Collections
Roy Wilsey	Disbursements Director

WINONA STATE UNIVERSITY

I. INTRODUCTION

Winona State University is under the management and control of the State University Board and the immediate supervision of a president appointed by the Board. Dr. Thomas Stark served as university president during the period under audit.

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 are accounted for only through the State University System accounting system. These include federal financial aid programs, the State University Revenue 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 1985-1987, Winona State University, including the Rochester Center, collected from tuition and spent for general operations the following:

<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>
1985	\$6,088,110	12.4%	\$18,392,711	11.06%
1986	\$6,659,870	11.6%	\$19,931,227	11.30%
1987	\$7,401,516	11.7%	\$21,340,213	11.59%

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>
1984-85	5,376	4,355
1985-86	5,379	4,537
1986-87	5,871	4,930

WINONA STATE UNIVERSITY

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over cash reconciliations and adjustments at Winona State University are not effective.

In several areas, controls intended to provide checks and balances over cash at Winona State University (WSU) are not effective. Reconciliations and other review procedures should generally be used to allow an independent person the opportunity to reexamine and investigate any unusual or unique transactions or balances. However, at WSU, sufficient procedures have not been followed to provide an effective control.

For example, WSU staff reconcile various WSU accounting records to bank balances and Chancellor's Office records. Although we were told that the accounting staff would find and investigate any discrepancies during the monthly reconciliation process, one account balance had been overstated by \$10,000 for at least five months with no evidence that steps were taken to resolve the overstatement. However, during the audit the discrepancy was investigated and resolved.

Reconciliations of Perkins (NDSL) activity also need to be improved. Fiscal year 1988 NDSL activity through March included \$263,918 in disbursements and \$367,388 in loan repayments. NDSL loans, repayments, and cancellations are posted to a control ledger, which we were told is reconciled to the general ledger each month. However, the reconciliation is done informally by the persons responsible for each ledger, and no written documentation is maintained. Reconciliations need to be written to verify that they are being performed and to document how reconciling items are handled.

In addition, voided cash transactions have not been properly investigated and documented. When the cashier makes a mistake on the cash register, normally the amount in error will be voided and the correct amount re-entered. If the error is not detected until after the cash register has been closed out for the day, the discrepancy must be recorded on a manual correction sheet. In either case, a void is a sensitive transaction because it documents a difference between cash recorded and cash deposited. Without a careful review and approval of voids, all other cash controls may be circumvented and errors or irregularities may remain undetected. WSU does not have adequate documentation supporting cash voids, nor did we find evidence that voids were reviewed and approved. For example, the void we reviewed was made because funds were originally deposited into the wrong account. Because there was no explanation for the void, we could not determine that happened to the \$100 which was voided. We ultimately determined that the funds were redeposited the next business day. The documentation regarding this transaction did not clearly indicate the circumstances and how the matter was corrected. When questioned, the accounting staff indicated that they had not reviewed or investigated the transaction.

WINONA STATE UNIVERSITY

Finally, independent monitoring of petty cash funds at WSU has not been effective. WSU has not maintained adequate control over petty cash funds located throughout the campus. The person responsible for monitoring the change funds did not know where all of the funds were located. These funds have not been verified when the monthly reconciliations of imprest cash are performed, nor are individual petty cash funds reconciled when the funds are reimbursed. Some of the change funds had been increased without proper authorization. Although at least one change fund had been independently counted and shown to be higher than authorized, the increase was not questioned or resolved.

RECOMMENDATIONS

- All discrepancies uncovered during reconciliations should be investigated and resolved.
- Reconciliations between the NDSL control ledger and the general ledger should be formally documented in writing.
- All voids should be fully documented by independent evidence and approved whenever necessary.
- Petty cash funds should be monitored. All petty cash funds should be periodically counted and reconciled to the authorized amount. Unauthorized increases to petty cash funds should not be allowed.

2. Winona State University has exceeded its imprest cash authorization.

Winona State University (WSU) maintains an imprest cash account, as allowed by Minn. Stat. Section 15.191. This imprest cash account is used to pay for miscellaneous purchases, tuition refunds, and travel advances. A portion of the fund is also kept in cash on campus to provide change funds.

WSU has exceeded its authorized imprest cash amount. Minn. Stat. Section 15.191, Subd. 2 states, in part, "Before an imprest cash fund is established an application showing the need therefore shall be presented to the commissioner of finance who shall fix the amount of the fund for the department or agency." WSU has an authorized imprest cash amount of \$15,000. However, WSU maintains an additional \$9,670 in cash at various locations on campus. This additional amount has not been authorized by the Department of Finance. Also, during registration periods, the amount of unauthorized imprest cash on campus increases. During those periods, WSU temporarily borrows additional funds from university local accounts to provide change to students. The amounts borrowed from the local accounts have ranged from \$5,000 to \$20,000.

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RECOMMENDATION

- WSU should seek authorization for all imprest cash amounts from the Department of Finance in accordance with Minn. Stat. Section 15.191.

3. PRIOR FINDING NOT RESOLVED. WSU does not adequately use nor maintain receiving reports to document the receipt of goods by the university.

Department of Finance Operating Policy and Procedure 06:05:01 requires the use of receiving reports or other similar documentation. Receiving reports provide assurance that goods were received before invoices are paid. During our audit period, receiving reports were not properly used. In several cases, the business office stamped a copy of the invoice and forwarded it to the ordering department to be signed and dated, in lieu of obtaining a receiving report or packing slip.

In January 1988, the business office manager sent a memo to all department heads and secretaries stressing the need to have receiving reports sent back to the business office. Although, some improvement has been made as a result of this memo, some departments still do not comply.

RECOMMENDATION

- WSU should continue efforts to:
 - require ordering departments to return receiving reports with complete information concerning the quantity and quality of goods received to the business office;
 - match receiving reports with purchase orders and incoming invoices to ensure the goods were received before disbursements are made; and
 - properly record the statewide accounting occurrence date reflecting the date the goods were received in accordance with Finance procedure 06:05:01.

4. Both manual and computer records are maintained for NDSL accounts.

Perkins (NDSL) loans are awarded to eligible students to assist them in paying for their educational costs. The loans are made at a reduced interest rate, and repayment begins after the student leaves school. Currently, WSU maintains NDSL loan information in manual ledgers as well as on a computer system. Manual records are kept for each loan recipient, as well as a control ledger. The loan repayments and cancellations are also maintained on a computerized record keeping system. However, WSU staff indicated that they do not believe that the computer records are accurate, and therefore do not rely on them. All reporting is done from the manual records.

WINONA STATE UNIVERSITY

Maintaining two NDSL systems at WSU results is a duplication of effort with no benefit gained. In order to achieve efficiency in the record keeping process, only one set of records should be maintained.

RECOMMENDATION

- WSU should work with the State University Board to develop one recordkeeping system for their NDSL records.

5. NDSL state match is not received in a timely manner.

Federal regulations require schools that draw federal funds for the Perkins (NDSL) program to contribute one ninth matching amount at the same time or earlier than the federal contribution is received. The WSU matching funds must be requested from the State University Chancellor's Office. During fiscal year 1988, NDSL funds were drawn twice. Although WSU requested the state match from the Chancellor's Office at the same time the federal funds were requested, the state match funds were not deposited until one to two weeks after the federal funds were deposited. In order to comply with the federal requirements, WSU should request the state match early enough to ensure that they arrive at the same time the as the federal funds.

RECOMMENDATION

- WSU should ensure that state matching funds are deposited prior to or at the same time the federal contribution is deposited.

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III. STATUS OF PRIOR RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Faculty employee pay rates were not properly calculated or documented.

1. All pay rates should be based on actual contract amounts and service periods. If necessary, retroactive adjustments should be made to settle amounts owing from prior pay periods.

RECOMMENDATION IMPLEMENTED. Testing during our current audit showed that all payrates are now based on contract amounts and retroactive adjustments are used when appropriate.

2. All EAFs should be properly approved, signed by the appointing authority, and maintained to document changes made.

RECOMMENDATION IMPLEMENTED. Testing during our current audit showed that all EAFs are now properly approved.

Controls over WSU's petty cash funds need to be improved.

3. The WSU accountant responsible for petty cash funds should monitor and review all petty cash fund balances to ensure adequate accountability. The missing petty cash fund should be located or written off.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

4. Each petty cash fund should be reconciled each time it is reimbursed.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

Supporting documentation is not examined by WSU officials before checks are signed.

5. Check signers should review supporting documentation for disbursements before they sign and issue the checks.

RECOMMENDATION IMPLEMENTED. Supporting documentation is now being reviewed before checks are signed.

WSU does not adequately use or maintain their receiving reports documenting the receipt of goods by the university.

6. Ordering departments should be required to return receiving reports to the business office with complete information concerning the quantity and quality of goods received.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.

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7. Receiving reports should be matched with purchase orders and incoming invoices to ensure the goods were received before disbursements are made.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.

8. The statewide accounting occurrence date should consistently be the date the goods were received in accordance with Finance procedure 06:05:01.

RECOMMENDATION NOT IMPLEMENTED. See current finding #3.



Winona, Minnesota 55987
Telephone (507) 457-5000

October 6, 1988

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

This correspondence is in response to the revised draft audit report of Winona State University, dated September 29, 1988.

We have reviewed the contents of the report, and concur with the recommendations concerning the items cited. Our responses to the comments and recommendations are as follows:

- 1A.) Recommendation: All discrepancies uncovered during reconciliations should be investigated and resolved.

University Response: In total, cash reconciliations were correct. However, within the total fund, one account had \$10,000 more credited to it while another account should have been credited with this amount. The total fund was in balance. In order to prevent a recurrence, additional reconciliation requirements have been added in the Business Office to effectively deal with these unique balances.
Person responsible for implementation: Erich Dornbusch
Projected completion date: Already implemented.

- 1B.) Recommendation: Reconciliations between the NDSL control ledger and the general ledger should be formally documented in writing.

University Response: Perkins (NDSL) activity was reconciled monthly in the past; we are now keeping hard copy manual records as documentation.
Person(s) responsible for implementation: JoAnne Lanik and Gennell Iverson
Projected completion date: Already implemented.

- 1C.) Recommendation: All voids should be fully documented by independent evidence and approved whenever necessary.

University Response: Voided transactions are being reviewed by a second party with the appropriate cross reference documentation being a part of the permanent daily cash receipting file.
Person responsible for implementation: Erich Dornbusch
Projected completion date: Already implemented.

- 1D.) Recommendation: Petty cash funds should be monitored. All petty cash funds should be periodically counted and reconciled to the authorized amount. Unauthorized increases to petty cash funds should not be allowed.

University Response: Additional procedures have been implemented to comply with appropriate petty cash fund reconcilements and change fund balances.
Person responsible for implementation: Erich Dornbusch
Projected completion date: Already implemented.

- 2.) Recommendation: WSU should seek authorization for all imprest cash amounts from the Department of Finance in accordance with Minn. Stat. Section 15.191.

University Response: A request to increase the amount of imprest cash authorization has been submitted to the Department of Finance. Furthermore, change funds will be maintained within the imprest cash fund.
Person(s) responsible for implementation: Jerry Varner, Roger Larson (SUB)
Projected completion date: The request has already been submitted.

- 3). Recommendation: WSU should continue efforts to (1) require ordering departments to return receiving reports with complete information concerning the quantity and quality of goods received to the business office; (2) match receiving reports with purchase orders and incoming invoices to ensure the goods were received before disbursements are made; and (3) properly record the statewide accounting occurrence date reflecting the date the goods were received in accordance with Finance procedure 06:05:01.

University Response: We will continue to stress to all university departments the importance of complying with proper procedures for receiving goods and equipment. After departments have verified that the goods have been received in good condition, receiving reports will be matched with purchase orders and invoices before payments are made.

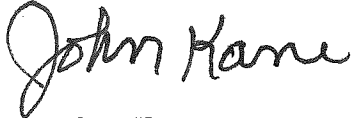
- 4). Recommendation: WSU should work with the State University Board to develop one recordkeeping system for their NDSL records.

University Response: The Administrative Computer Center will be requested to implement changes necessary to update the applicable computer program. After this update has been successfully completed, the computer system will be the only system used to verify activity on NDSL loans.
Person(s) responsible for implementation: Penny Gresham, Gennell Iverson, and David Forsythe
Projected completion date: The request has already been made.

- 5). Recommendation: WSU should ensure that state matching funds are deposited prior to or at the same time the federal contribution is deposited.

University Response: Funds will be requested from the State prior to the date funds are requested from the Federal agency.
Person responsible for implementation: JoAnne Lanik
Projected completion date: Next request.

We appreciate the assistance that you and your staff have provided. If you require further information, please feel free to call.



Dr. John Kane,
Interim President

cc: Dr. Robert Carothers, Chancellor