

**BEMIDJI STATE UNIVERSITY  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1988**

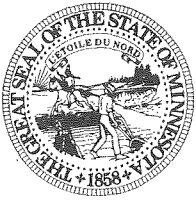
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**JULY 1989**

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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

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Senator John E. Brandl, 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. Lowell R. Gillett, President  
Bemidji State University

**Audit Scope**

We have completed a financial and compliance audit of Bemidji State University for the three years ended June 30, 1988. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Bemidji 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, BSU 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.

**Internal Accounting Control Systems**

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, administrative disbursements made through statewide accounting, receipts, imprest cash, certain activity funds, federal financial aid and grants at the university in effect as of February 28, 1989.

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The management of BSU 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 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 authorization 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.

#### Scope Limitation

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 BSU for the three years ended June 30, 1988, our limited scope precludes us from rendering audit opinions on these activities.

#### Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. State universities are generally governed by Minn. Stat. Chapter 135A and Sections 136.01 to 136.58. Minn. Stat. Section 136.01 designates the state universities which are under the management, jurisdiction, and control of the state university board.

The university is subject to various legal provisions which direct its conduct regarding specific financial issues. More specifically, Minn. Stat. Section 135A.03 provides the guidelines relating to state appropriations for instructional services. Minn. Stat. Section 135A.04 enables the university to establish tuition. Minn. Stat. Section 136.11 establishes particular financial activities and funds which the universities are authorized to maintain. This section includes provisions for tuition, fees, activity fund and refunds. Minn. Stat. Section 136.142, Subd. 1 provides for the acceptance of gifts and bequests.

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The university is subject to certain general legal provisions which affect the financial management of most state agencies. Minn. Stat. Section 15.191 limits the use of imprest cash accounts to those authorized by the Department of Finance. Minn. Stat. Section 16A.275 requires prompt depositing of agency receipts. Minn. Stat. Section 16B.07 requires competitive bids be let for all public contracts over \$15,000. Activity fund moneys are exempt from the requirements in chapters 16A and 16B. Minn. Stat. 16B.17 relates to consultant and technical services requirements. Minn. Stat. Section 43A.07 -.08 provide the authority for classification of employees and salary changes as negotiated with the various bargaining units. Bargaining unit contracts and plans applicable to the university include IFO, MSUAAF, MMA and Council 6. Office of Management and Budget (OMB) Circular A-21 Section J-7 relates to the allowability of contingency accounts.

The management of Bemidji State University is 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 the university. The purpose of our testing of transactions was to obtain reasonable assurance that BSU had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

#### Status of Prior Audit Findings

We reviewed the status of audit findings included in our audit report on Bemidji State University for the three years ended June 30, 1985, dated August 6, 1986. We issued follow-up letters on August 26, 1987 and September 21, 1988 to the university's president, stating that all findings included in the prior Bemidji State University report had been resolved.

Testing of BSU's federal financial aid programs is done in conjunction with our Statewide Audits of the State of Minnesota's annual financial statements and federal programs. We issued three separate management letters to the State University System concerning federal financial aid during the audit period. They were dated March 26, 1987, March 24, 1988, and March 7, 1989, and covered fiscal years 1986, 1987, and 1988, respectively. The fiscal year 1986 management letter contained three findings relating to BSU. Two findings have been completely resolved. The remaining finding was withdrawn. The first finding related to noncompliance with U.S. Treasury Circular 1075 and the untimely submission of federal reports. The second finding related to proper authorization of Perkins Loan cancellations. The fiscal years 1987 and 1988 management letters did not contain any findings relating to BSU.

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### Conclusions


In our opinion, except for the State University System Revenue Fund which we did not audit as explained in the Scope Limitation section of this letter, Bemidji State University's system of internal accounting control in effect on February 28, 1989, 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 are executed in accordance with management's authorization and recorded properly.

Section II, findings 2-4, represent several weaknesses in Bemidji State University controls. We believe the weaknesses subject Bemidji State University to an unnecessary financial risk and should be corrected. Progress on resolving these findings will be reviewed during the next year.

The results of our testing of transactions and records indicate that, except for findings 1 and 5, Bemidji State University complied with the aforementioned finance-related legal provisions. As part of our internal control evaluation of federal financial aid, no instances of noncompliance with related federal regulations was found. Nothing came to our attention in connection with our audit that caused us to believe that Bemidji State University was not in compliance with other applicable legal requirements.

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

END OF FIELDWORK: March 24, 1989

REPORT SIGNED ON: July 25, 1989

# 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
Tom Donahue	Audit Manager
Jack Hirschfeld, CPA	Auditor-in-Charge
Marla Conroy, CPA	Staff Auditor
Jean Mellett, CPA	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Bemidji State University on March 24, 1989:

Tom Faecke	Vice President, Administrative Affairs
Jerry Amble	Director of Accounting Services
David Waldon	Director of Budgets and Financial Planning
John Schullo	Director of Financial Aid
Fred Gilbert	Accounting Supervisor
Dennis Burgess	Accounting Officer
Gloria Reuter	Accounting Supervisor





# BEMIDJI STATE UNIVERSITY

## I. INTRODUCTION

Bemidji 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. Lowell R. Gillett has served as university president since August 1, 1982.

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 1986-1988, Bemidji State University, 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>
1986	\$5,141,690	8.93%	\$19,090,091	10.82%
1987	\$5,422,626	8.58%	\$19,789,483	10.75%
1988	\$5,609,958	8.71%	\$22,590,737	10.47%

Source: Statewide Accounting Reports for Fiscal Years 1986-1988.

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>Full-Time Equivalent</u>
1985-86	3,769
1986-87	3,754
1987-88	3,825

Source: Bemidji State University Registrar's Office.

## BEMIDJI STATE UNIVERSITY

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### 1. BSU improperly charged federal grants for unemployment claims.

Bemidji State University improperly removed an amount equal to two percent of salaries from each federal grant to set up a reserve account for potential unemployment claims. In February 1989 BSU transferred \$32,000 from this reserve account to the general operating account. BSU uses the general operating account to pay the actual unemployment claims based on billings submitted by the Department of Jobs and Training. BSU intends to pay future unemployment billings with funds from the reserve account. However, creating the reserve account by charging each grant for a contingency payment is not allowable under federal regulations. Office of Management and Budget (OMB) Circular A-21 provides the cost principles for educational institutions. The circular states ". . . contributions to a contingency reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable. . . ." The process of removing two percent of salaries from each federal grant does not result in the matching of program costs to grant receipts. It also results in less money being available for program purposes.

#### RECOMMENDATIONS

- Bemidji State University should consult with federal grantor agencies to determine the disposition of funds remaining in the reserve account.
- Bemidji State University should stop charging federal grants for potential unemployment claims.

#### 2. Cash has not been accurately reported on federal reports.

The grant supervisor does not report an accurate cash amount on federal reports. Bemidji State University submits a Federal Cash Transaction Report quarterly to the federal grantor agency. The Federal Cash Transaction Report provides the federal government with a summary of federal aid usage and current levels of cash on hand. The grants supervisor has a responsibility to insure the cash amount reported on the federal report is accurate. However, the grants supervisor has been computing the amount of cash on hand without reconciling the amount to BSU accounting records. Because the grant supervisor does not reconcile the cash balances, BSU cannot be sure whether errors have occurred and that the two cash balances are equal. We reconciled the cash balances in the accounts to the amount shown on the Federal Cash Transaction Report submitted in August 1988. The cash balances in the accounts exceeded the reported amount by about \$3,000, resulting in an understatement of cash on hand. The grant supervisor should complete the reconciliation before submitting the report to the federal government.

## BEMIDJI STATE UNIVERSITY

### RECOMMENDATION

- The grants supervisor should insure that the reported cash amount is accurate by reconciling the cash balances in the accounts to the amount reported on the Federal Cash Transaction Report.

### 3. Internal controls over Madrigal Dinner receipts are inadequate.

BSU does not reconcile ticket sales to receipts for Madrigal Dinners, and does not have an agreement with the hotel hosting the dinners. Madrigal Dinners are dinner concerts performed by the BSU choir during the Christmas season. BSU holds performances in Bemidji and at a hotel in Minneapolis. BSU choir responsibilities depend on the location. In Bemidji, the choir is responsible for selling tickets and contracting for the meals. Receipts totaling about \$33,000 were collected from the 1988 concerts and deposited into the BSU Activity Fund. The hotel reimburses the choir for transportation and provides meals and lodging for the twin cities concerts. BSU does not collect any receipts from the twin cities concerts. Internal controls over the following areas are inadequate.

- BSU does not verify the accuracy of cash receipts from Madrigal Dinners. During the previous year, the choir lost about \$500 in cash receipts. The music department could not determine who was responsible for the loss. BSU should establish procedures to insure an accountability of cash receipts from madrigal dinners. One procedure to achieve accountability is to reconcile tickets sold to cash receipts for each ticket seller. This procedure would help to verify if any errors occurred, and would also identify the individual responsible for the errors. BSU may also determine other procedures which would be equally effective. Any procedures that would insure the accountability of cash is necessary. Without procedures to verify accountability, losses similar to last year could continue.
- BSU does not have an agreement with the hotel hosting the twin cities madrigal dinner. Department of Administration Policy and Procedure Manual ADM-188 requires that contracts be written for nonmonetary agreements. An agreement would prevent any misunderstandings between the hotel and BSU, and would reduce the chance for any potential liabilities.

### RECOMMENDATIONS

- BSU should establish procedures to insure the accountability of cash receipts from the sale of tickets for madrigal dinners.
- An agreement should be developed between the Twin Cities hotel hosting the dinner and BSU stating the responsibilities and obligations for each party to the contract.

## BEMIDJI STATE UNIVERSITY

### 4. BSU does not provide adequate security for cash in transit.

BSU does not provide security for an employee and cash in transit between the bank and the university. A BSU employee picks up cash from the bank and makes nightly deposits. The same employee also picks up additional money every two weeks to cash student pay checks. No courier service is used. No guard or other BSU employee accompanies this employee when transporting the cash. Because BSU does not provide security, the safety of the employee and the security of the cash are at risk.

BSU is responsible for the safety of employees. Good internal controls also require that the university safeguard its assets, including cash in transit. BSU could provide several alternate methods of security for the employee and the cash, including:

- courier service between the bank and the university,
- having security guards accompany the employee, or
- at a minimum, having additional staff accompany the employee.

### RECOMMENDATION

- BSU should review available options for providing security for the employee and cash when in transit between the bank and the university.

### 5. BSU does not comply with established gift procedures.

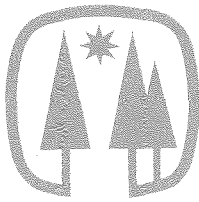
BSU does not promptly report gifts received to the University President and to the physical inventory section. A formal gift reporting process is necessary at all state agencies. This process must review all gifts in order to identify any gifts that may result in a potential future liability. To complete this process someone who has the responsibility and knowledge should be reviewing gifts. During fiscal year 1988 BSU received several gifts including a computer, ceramics, and a print collection. Minn. Stat. Section 136.142 authorizes the state university board to receive and accept gifts. State university policy 6.6 delegates this authority to university presidents. BSU departmental staff are required to notify the president's office when gifts are received. However, many staff were unaware of gift reporting procedures, and did not report all gifts received to the presidents office in a timely manner. For instance, a department of visual arts employee did not report the ceramics donation because he thought gifts were to be reported on an annual basis. While the ceramics gift may not result in a future liability, other gifts may have this potential. BSU should develop a process to review gifts and identify those which may result in future liability. Departmental staff should comply with this process.

## BEMIDJI STATE UNIVERSITY

Department of Administration Fixed Asset Record Management System manual section II.5.a requires agencies to include donated fixed assets with an estimated fair market value of \$500 or more on their inventory. The donated gifts above were not included on the fixed asset inventory system. Internal controls over fixed assets are reduced when assets are not included in inventory. The assets are more susceptible to loss or misuse, and there is a lack of assurance that the gifts are being used for their intended purpose.

### RECOMMENDATION

- Departments at BSU should report all gifts received to the president's office for agency review. In addition, all gifts with an appraised value of \$500 or more should be included on their fixed asset inventory listing.



## Bemidji State University

1500 BIRCHMONT DRIVE NE  
BEMIDJI, MN 56601-2699

July 18, 1989

OFFICE OF THE PRESIDENT  
218-755-2011

Mr. James R. Nobles, Legislative Auditor  
State of Minnesota  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

I am in receipt of the draft audit report on Bemidji State University for the three fiscal years ended June 30, 1988 as prepared by Mr. Thomas Donahue and his staff. We would like to take this opportunity to respond to their findings and recommendations:

1. Bemidji State University will discontinue charging federal grants for potential unemployment claims. The balance in the reserve account will be returned to the grantor agency via a reduction in the cash drawdown for a current program from that agency.
2. The grants accountant will complete a reconciliation of cash balances in the accounts to the amount being reported on the Federal Cash Transaction Report.
3. A formal written agreement stating responsibilities and obligations will be developed between the Metro area hotel hosting the Madrigal Dinner Concerts and Bemidji State University. There will also be a reconciliation of tickets sold to cash receipts for each ticket seller.
4. Bemidji State University is reviewing options to strengthen security for the employee and cash while transit between the bank and the University.
5. A formal gift reporting procedure will be distributed to all departments at Bemidji State University. The procedure emphasized that all gifts are to be reported and received by the President's Office for agency review. All gifts with an appraised value of \$500 or more will be included on our fixed asset inventory.

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

Sincerely,

Lowell R. Gillett  
President

cc Mr. Thomas A. Faecke, VP for Administrative and Student Affairs  
Mr. Gerald S. Amble, Director of Accounting, BSU