

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

DECEMBER 1989

NOTICE

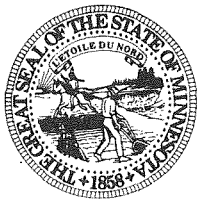
State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

MANKATO STATE UNIVERSITY

REPORT SUMMARY DECEMBER 1989

The Office of the Legislative Auditor has issued a financial audit on Mankato State University for the three years ended June 30, 1988. The audit report contains two findings. The first finding discusses the university's need to follow appropriate employee travel reimbursement procedures for international travel. The second finding addresses the university's imprest cash account and to operate it within its authorized level of funding.

FINANCIAL AUDIT DIVISION
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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. Margaret R. Preska, President
Mankato State University

Audit Scope

We have completed a financial and compliance audit of Mankato 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.

Mankato State University (MSU) 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.

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, gifts, and federal grants at the university in effect as of April 30, 1989, and federal financial aid to students in effect as of December 15, 1988.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Robert L. Carothers, Chancellor
State University System
Members of the State University Board
Dr. Margaret R. Preska, President
Mankato State University
Page 2

The management of MSU 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.

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.

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

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Robert L. Carothers, Chancellor
Members of the State University Board
Dr. Margaret R. Preska, President
Mankato State University
Page 3

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. The university also administers four major federal programs: the Guaranteed Student Loan, College Work-Study, Perkins Loan, and PELL Grant. The program requirements for federal financial aid to students are specified by various federal rules and regulations.

The management of Mankato 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 MSU had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations.

Testing of Federal Financial Aid

Testing of MSU'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 did not contain any findings relating to MSU. The fiscal year 1987 management letter contained one finding addressed to MSU concerning the overawarding of Guaranteed Student Loans to three students. This finding was resolved. The fiscal year 1988 management letter contained two findings relating to MSU. The first finding addressed non-institutional fees being deducted from student federal financial aid before it was distributed to students. The second finding dealt with MSU using an improper withdrawal date when it calculated refunds and overpayments due to the federal financial aid accounts.

Status of Prior Audit Findings

We reviewed the status of audit findings included in our audit report on Mankato State University for the three years ended June 30, 1985, dated July 8, 1986. We issued follow-up letters on November 2, 1987 and October 5, 1988 to the university's president, stating that all but one finding included in the prior Mankato State University report had been resolved. This finding, which addressed the issue of positive time reporting for non-faculty employees, has now been resolved.


Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Robert L. Carothers, Chancellor
Members of the State University Board
Dr. Margaret R. Preska, President
Mankato State University
Page 4

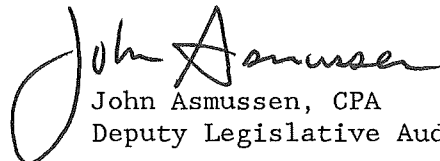
Conclusions

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, Mankato State University's system of internal accounting control in effect on April 30, 1989 (December 15, 1988 for federal financial aid), 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.

The results of our testing of transactions and records indicate that, except for findings 1 and 2, and the findings referenced in the previous paragraph entitled "Testing of Federal Financial Aid," Mankato State University complied with the aforementioned finance-related legal provisions. Nothing came to our attention in connection with our audit that caused us to believe that Mankato State University was not in compliance with other applicable legal requirements.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 2, 1989

REPORT SIGNED ON: December 6, 1989

MANKATO STATE UNIVERSITY

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	5

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
Mike Hassing	Auditor-in-Charge
Lois McGuire	Staff Auditor
Rhonda Regnier	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Mankato State University on June 2, 1989:

Victor Colway	Vice President, Administrative Affairs
H. Dean Trauger	Acting Vice President, Fiscal Affairs
Laverna Alm	Director of Accounting
Garnet Cafourek	Director of Student Loans and Accounts Receivable

MANKATO STATE UNIVERSITY

I. INTRODUCTION

Mankato 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. Margaret R. Preska has served as university president since 1979.

Operations of the university are financed mainly by student tuition and fees, and state appropriations from the General Fund. Instructional activities of the university are accounted for through the statewide accounting (SWA) system. However, other activities 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, Mankato 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	\$15,984,199	27.76%	\$46,579,589	26.01%
1987	\$17,238,321	27.28%	\$49,253,719	26.76%
1988	\$18,288,590	28.39%	\$52,303,523	24.24%

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	11,544
1986-87	14,453
1987-88	14,779

Source: Mankato State University's Annual Report.

MANKATO STATE UNIVERSITY

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The MSU business office did not follow appropriate employee reimbursement procedures for an instructor's international travel.

An instructor from the University's Spanish department was reimbursed \$6,000 for the travel costs associated with a study program in Mexico. The instructor was paid more than allowed by state travel regulations for his trip to and from Mexico. Also, his original reimbursement claim did not include all required supporting documentation.

The instructor chose to drive his personal automobile to Mexico. He was reimbursed for mileage to and from Mexico, plus an allowance for meals and lodging enroute. The instructor was reimbursed \$1,452.88 for this part of his trip. However, state travel regulations, Finance operating policy and procedure 06:05:15, limit reimbursement costs for travel to and from a destination, as follows:

- expense reimbursement for out-of-state travel by personal car will be limited to the amount of airfare which otherwise would have been charged or actual mileage reimbursement, if the mileage is less than the airfare;
- the amount of airfare reimbursement must be the lowest round trip airfare available on the day the trip request was approved; and
- expenses which would not have been incurred if air travel had been used such as meals, lodging, or other expenses may not be claimed for reimbursement.

Although 1988 airline rates were not available, the instructor indicated that the rates were comparable to the 1989 rates. The 1989 round trip airfare from Mankato to Guadalajara, Mexico was \$612, according to a local Mankato travel agency. The airline would also have charged an extra \$200 to \$300 for transporting the instructor's extra baggage. According to state travel regulations, the instructor should have been paid approximately \$800 to \$900 for traveling to and from Mexico, rather than the \$1,452.88.

MSU officials argued that the additional travel costs were justified because the instructor needed a car in Mexico. He used the car to monitor student activities during the three months of study in Mexico. The MSU Business Manager estimated that it would have been more costly for the instructor to fly to Mexico and rent a car, than to be paid the added cost of driving his own car.

The travel claim on file in the business office also lacked sufficient documentation in the following areas:

MANKATO STATE UNIVERSITY

- Advance approval was not obtained, as required by the DOER Special Expense Policy. The policy requires DOER to approve all international travel in advance. Also, the special travel arrangements with the instructor's car needed approval.
- The instructor failed to provide a daily mileage log for over 3,000 miles of local travel in Mexico during the three months.
- Some lodging receipts were not attached to the claim.

As a result of our questioning this claim, the MSU business office obtained a daily mileage log from the instructor. The log indicated a total of 7,298 miles traveled. The trip from Mankato to Guadalajara, Mexico was 2,080 miles each way.

MSU officials admit that the claim was not processed properly. However, they argued that the instructor should be entitled to the full reimbursement amount. They believe that the extenuating circumstances associated with international travel justified exceeding state travel regulations. Their view was also supported by officials from the Departments of Finance and Employee Relations (DOER). The officials believe that a variance from state travel regulations would have been granted for the instructor pursuant to the DOER Administrative Policy on Special Expenses. They also note, however, that MSU failed to follow proper procedures. MSU did not seek advance approval for the international travel and special reimbursement arrangements, as required by the policy.

RECOMMENDATIONS

- The business office should follow the special expense provisions of the Department of Employee Relations when applicable. Specifically, prior approval of all international travel for which reimbursement is sought, should be obtained from the Department of Employee Relations.
- The business office should process all employee settlement expense reports according to Department of Finance operating policies and procedures.
- Local mileage must be documented. A log with odometer readings should accompany the expense report listing local miles driven each day. All lodging receipts should be attached to the settlement claim.

2. Mankato State University's imprest cash account exceeded its authorized level of funding.

The month-end book balance of the university's imprest cash account has been negative for 14 of the 22 months ended April 30, 1989. The deficits have ranged from \$1,642 to \$91,748. The imprest cash funds are held in a

MANKATO STATE UNIVERSITY

local bank account together with money from other sources including auxiliary and activity funds. In effect, unauthorized borrowing from the other money held in the local bank account finances these deficit balances.

Under the authority of Minn. Stat. Section 15.191, Subd. 2, the Department of Finance authorized an imprest cash fund of \$45,000 for the university. This account is comprised of \$35,000 from the General Fund and \$10,000 from the Revenue Bond Fund. The university uses the imprest cash funds primarily for tuition refunds, travel advances, and faculty improvement grants. In recent years, the level of activity in the imprest cash account has expanded significantly due to increases in travel advances and faculty improvement grants. There also has been an increase in student refunds, in part due to more students.

To reduce the deficits in the imprest cash account, the university has recently requested that the authorized amount of the account be increased to \$55,000. The university has also requested the authority to temporarily increase the account by an additional \$80,000 on a quarterly basis to meet the demands of tuition refunds. These funds would be available from the other local funds in the bank account.

RECOMMENDATION

- Mankato State University should ensure that the authorized level of imprest cash funds is not exceeded.

Mankato

STATE UNIVERSITY

Vice President for Fiscal Affairs
MSU Box 60
P.O. Box 8400
Mankato, Minnesota 56002-8400
(507) 389-6621

November 30, 1989

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

RE: Mankato State University's Audit Report

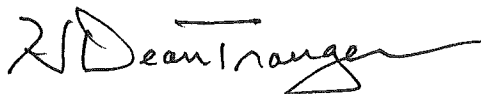
Dear Mr. Nobles:

President Preska has asked me to respond to the revised draft audit report that summarizes the results of the audit work on Mankato State University records for the three fiscal years ending June 30, 1988.

We appreciated the opportunity of discussing with John Asmussen, and Tom Donahue our concerns regarding the original draft report.

Mankato State University's response to the audit findings and recommendations are attached to this memo. As always we appreciate the fine work that the Legislative Auditor's Office does on our behalf.

Sincerely,



H. Dean Trauger
Vice President for Fiscal Affairs

Enc.

HDT/kp



Mankato State University Audit Report
For The Three Fiscal Years Ending June 30, 1988.

Response to Findings and Recommendations

FINDING

- (1) The MSU Business Office did not follow appropriate employee reimbursement procedures for an instructor's international travel.

RECOMMENDATION

The Business Office should follow the special expense provisions of the Department of Employee Relations when applicable. Specifically, prior approval of all international travel for which reimbursement is sought, should be obtained from the Department of Employee Relations.

The Business Office should process all employee settlement expense reports according to Department of Finance operating policies and procedures.

Local mileage must be documented. A log with odometer readings should accompany the expense report listing local miles driven each day. All lodging receipts should be attached to the settlement claim.

RESPONSE

We concur with the finding and recommendations. We will follow the special expense provisions and process employee expense reports according to the Department of Finance operating policies and procedures.

Responsible Persons:

H. Dean Trauger, Vice President for Fiscal Affairs
Laverna Alm, Director of Accounting

Implementation date - immediately Winter Quarter 1990,
Mexico Travel expense authorization has already been
submitted to SUS Office.

FINDING

- (2) Mankato State University's imprest cash account exceeded its authorized level of funding.

RECOMMENDATION

Mankato State University should ensure that the authorized level of imprest cash funds is not exceeded.

RESPONSE

We agree with the finding and recommendation. As stated in the report a permanent increase to the fund has been obtained and temporary authorization to exceed the fund balance has been granted by the Department of Finance.

Responsible Persons:

Laverna Alm, Director of Accounting

Implementation date - already completed with continuous monitoring.