

**ST. CLOUD STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989**

JUNE 1990

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

90-34

ST. CLOUD STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: June 22, 1990

No. 90-34

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Tuition and fee receipts, general administrative disbursements, payroll, state grants, contracts, local accounts, and federal financial aid (for fiscal year 1990).
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- Controls over voided transactions and collection of extension class fees need to be improved.

We found that the university had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(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. Brendan McDonald, President
St. Cloud State University

Audit Scope

We have conducted a financial related audit of St. Cloud State University as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of St. Cloud State University, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of St. Cloud State University in effect at February 28, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of St. Cloud State University are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of St. Cloud State University's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

St. Cloud 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, university 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.

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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.

Testing of Federal Financial Aid

Testing of St. Cloud State University'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 24, 1988, March 7, 1989, and April 1990, and covered fiscal years 1987, 1988, and 1989, respectively. The fiscal year 1987 management letter did not contain any findings related to St. Cloud State University. The fiscal year 1988 management letter contained three findings related to St. Cloud State University. The first finding addressed non-institutional fees being deducted from student federal financial aid before it was distributed to students. Secondly, students withdrawing from school are not required to repay non-institutional financial aid. The third finding identified that St. Cloud State University was not following their policy on satisfactory academic progress. The fiscal year 1989 management letter carried forward the second finding from fiscal year 1988 as unresolved.

Management Responsibilities

The management of St. Cloud State University is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

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Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- tuition and fee receipts,
- general administrative disbursements,
- payroll,
- state grants,
- contracts,
- local accounts, and
- federal financial aid (controls for fiscal year 1990).

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

In our opinion, the internal control structure of St. Cloud State University in effect at February 28, 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of St. Cloud State University.

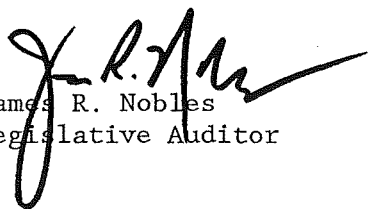
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of St. Cloud State University in finding 1.

The results of our tests indicate that, with respect to the items tested, St. Cloud State University complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that St. Cloud State University had not complied, in all material respects, with those provisions.

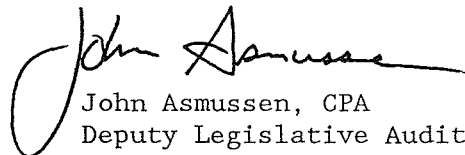
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This report is intended for the information of the Legislative Audit Commission and management of St. Cloud State University. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 22, 1990.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 6, 1990

REPORT SIGNED ON: June 15, 1990

ST. CLOUD 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, CPA	Audit Manager
Mike Hassing	Auditor-in-Charge
Judy Cammack, CPA	Auditor
Kari Irber, CPA	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of St. Cloud State University on March 29, 1990:

Bill Radovich	Vice President, Administrative Affairs
Mary Soroko	Assistant Vice President, Administrative Affairs
Diana Burlison	Business Manager

ST. CLOUD STATE UNIVERSITY

I. INTRODUCTION

St. Cloud 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. Brendan McDonald serves as president of the university.

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 1987-1989, St. Cloud State University collected from tuition and spent for general operations the following:

<u>Fiscal Year</u>	<u>Tuition</u>	<u>General Operations</u>
1987	\$17,204,617	\$55,654,266
1988	18,982,924	59,794,924
1989	20,650,716	67,070,421

Source: St. Cloud State University's
Financial Reports 1987-89.

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>
1986-87	11,205
1987-88	11,997
1988-89	12,608

Source: St. Cloud State University's
Financial Reports 1988-89.

ST. CLOUD STATE UNIVERSITY

II. CURRENT FINDING AND RECOMMENDATIONS

1. Controls over voided transactions and collection of extension class fees need to be improved.

We identified control weaknesses in two receipt areas concerning cashiers voiding transactions without authorization and instructors inappropriately collecting registration fees. Voided transactions rung on the cash registers are not authorized or documented by an independent employee. Each cashier uses the void or refund key to adjust their own mistakes. The refund key is used if the cashier has already totaled the initial transaction.

Someone independent of the cashier function should authorize and document the reason for the void or refund transaction. The business office has four cash registers that are all used during registration periods. Sometimes \$600,000 to \$700,000 is rung through the cash registers in one day. With such a large volume of receipts processed through the cash registers, a cashier could void a transaction inappropriately without detection.

The university is also subject to unnecessary risks during the collection of fees for extension classes. Instructors collect both registration materials and tuition fees from students on the first night of class. The instructor subsequently brings the registration materials and tuition fees to the Records and Registration office on campus. The registration is completed and the funds are forwarded to the business office for deposit.

With the current controls, the instructor could potentially conceal errors or irregularities since he is both collecting the registration material and the tuition fees. Also, since several classes are held off-campus each quarter by many different instructors, there is an increased risk of stolen or misplaced funds. A more centralized registration and collection process should be considered, such as an advance registration system.

RECOMMENDATIONS

- Someone independent of the cashier function should authorize and document transactions voided by the cashier.
- Instructors of extension classes should not collect both the registration materials and the course fees. St. Cloud State University should consider an advance registration system for its extension program.

ST. CLOUD STATE UNIVERSITY



Office of the President

St. Cloud, Minnesota 56301
(612) 255-2122

June 12, 1990

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

Dear Mr. Nobles:

This is in response to the audit report which summarizes the results of the three year audit ended June 30, 1989 at St. Cloud State University.

II.1. Controls on void transactions and collection of extension class fees.

* Authorization and documentation of cashier's voided transactions.

We concur with the recommendation that voids be documented and authorized by someone independent of the cashiers. We have implemented a void control sheet which will record all void transactions. This will be reviewed by the Cash Control Supervisor daily.

* Consider advance registration system for extension program.

We disagree with the need for a centralized registration and fee collection system for extension classes. We have discussed this issue in the past and have concluded that because of the nature of the extension class program, it is not practical to implement an advance registration system for the program. There are adequate compensating controls in place that maintain security in the collection of registration materials and fee payment. These are;

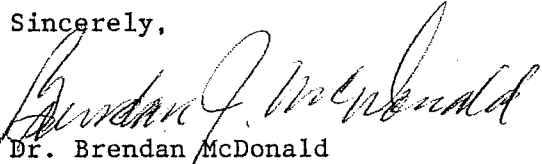
1. The registration form states the payment of tuition must be by check or money order made payable to St. Cloud State University; we do not allow the collection of cash on site.
2. The local bank has been informed that any accounts created in the name of St. Cloud State University must be approved by the Vice President of Administrative Affairs.
3. The control for receipt of the check is by the issuance of bills for non-payment.

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4. The control for receipt of both the registration materials and the fee payment is by issuance of grades.
5. We currently review the operation of this process each quarter.

If you have any questions concerning my response to the audit report, do not hesitate to contact me.

Sincerely,



Dr. Brendan McDonald
President