

**STATE UNIVERSITY SYSTEM
OFFICE OF THE CHANCELLOR**

**FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

SEPTEMBER 1992

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

92-62

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

STATE UNIVERSITY SYSTEM OFFICE OF THE CHANCELLOR

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: September 18, 1992

No. 92-62

OBJECTIVE:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Deposit clearance account, tax sheltered annuities program, summer school tuition, professional and technical contracts, capital outlays – real property, capital equipment expenditures, employee payroll and agency direct costs.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

We found the internal control structure to be effective.

We found one area where the State University System, Office of the Chancellor, had not complied with finance-related legal provisions:

- The Revenue Fund was used to lease a vehicle for the chancellor.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Terrence MacTaggart, Chancellor
State University System

Members of the State University Board

Audit Scope

We have conducted a financial related audit of the State University System-Office of the Chancellor as of and for the three years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State University System-Office of the Chancellor, as discussed in the Introduction section. We have also made a study and evaluation of the internal control structure of the State University System-Office of the Chancellor in effect during December 1991. The State University System-Office of the Chancellor oversees seven state university campuses, the revenue bond fund, and a campus in Akita, Japan. Individual campuses and the revenue bond fund are audited separately.

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 the State University System-Office of the Chancellor are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the State University System-Office of the Chancellor'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.

Management Responsibilities

The management of the State University System-Office of the Chancellor 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
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

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 into various categories. For all of the internal control structure categories listed below, 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.

- deposit clearance account;
- tax sheltered annuities program;
- summer school tuition;
- professional, technical contracts;
- capital outlays-real property;
- capital equipment expenditures;
- employee payroll; and
- agency direct costs.

We also identified the Revenue Fund as another significant internal control structure category. However, we did not assess control risk for this category. The Chancellor's Office, under the guidance of the Minnesota State University Board, administers the State University System's Revenue Fund. The Revenue Fund was established for the purpose of operating self-supporting residence halls, food services, and student union programs. The State University System's Revenue Fund is audited annually by a CPA firm.

Members of the Legislative Audit Commission
Dr. Terrence MacTaggart, Chancellor
Members of the State University Board
Page 3

Conclusions

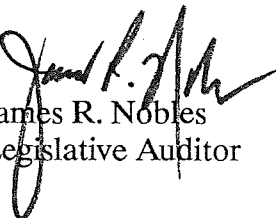
In our opinion, the internal control structure of the State University System-Office of the Chancellor in effect during December 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the State University System-Office of the Chancellor.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the State University System-Office of the Chancellor at the exit conference held on February 26, 1992.

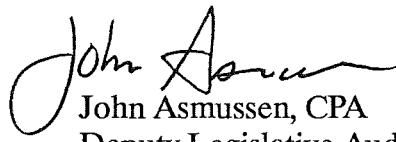
The results of our tests indicate that, except for the issues discussed in finding 1, with respect to the items tested, the State University System-Office of the Chancellor complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State University System-Office of the Chancellor had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the State University System-Office of the Chancellor. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 18, 1992.

We would like to thank the State University System-Office of the Chancellor staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 21, 1992

Report Signed On: September 10, 1992

State University System - Office of the Chancellor

Table of Contents

	Page
Introduction	1
Current Finding and Recommendations	2
Agency Response	3

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
Lori Pellicci, CPA	Auditor-In-Charge
Rhonda Regnier, CPA	Staff Auditor
Mark Johnson	Staff Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the State University System - Office of the Chancellor on February 26, 1992:

Edward McMahon	Vice Chancellor of Finance
Gerald Rushenberg	Associate Vice Chancellor of Finance

State University System - Office of the Chancellor

Introduction

The state university system is under the control of a nine member State University Board. The board members are appointed by the Governor subject to confirmation by the state senate. The board appoints presidents and faculty, establishes salaries, prescribes courses of study, and grants degrees. It also adopts rules and policies for the universities. The board appoints a chancellor, who serves as chief executive officer of the State University System and who is accountable to the board for the administration of the system. Dr. Robert Carothers served as chancellor until July 16, 1991. Dr. Terrence MacTaggart, the current chancellor, began his duties on August 19, 1991.

The Office of the Chancellor provides management and support services for the daily operations of the State University System. It is also responsible for managing the revenue fund, the tax sheltered annuities program, and the individual retirement account plan. On July 1, 1991, the responsibility for the state university portion of the College Supplemental Fund was transferred from the Teachers Retirement Association to the State University System. The Revenue Fund is audited on an annual basis by a CPA firm. The Revenue Fund's financial statements have received an unqualified opinion for each of the fiscal years 1989, 1990, and 1991. The revenues and expenditures of the Chancellor's office during the audit period are summarized below.

Revenues:	<u>FY 1991</u>	<u>FY 1990</u>	<u>FY 1989</u>
Deposit clearance	8,165,745	7,623,524	7,044,173
Tax sheltered annuities	7,802,693	7,413,096	7,564,910
Summer school tuition	4,677,060	4,510,984	3,959,498
Other revenues	<u>12,255,856</u>	<u>6,465,041</u>	<u>6,024,051</u>
Total Revenues	<u>\$32,901,354</u>	<u>\$26,012,645</u>	<u>\$24,592,632</u>
Expenditures:			
Professional/technical contracts	\$4,527,822	\$9,547,204	\$20,632,179
Tax sheltered annuities	7,803,513	7,412,276	7,564,910
Capital outlays-real property	9,193,192	4,517,766	5,266,108
Capital equipment	6,559,137	2,572,582	3,993,710
Employee payroll	2,996,352	2,866,620	2,314,201
Agency direct costs	5,012,569	0	0
Other expenditures	<u>2,492,289</u>	<u>12,586,413</u>	<u>8,176,721</u>
Total Expenditures	<u>\$38,584,874</u>	<u>\$39,502,861</u>	<u>\$47,947,829</u>

Sources: Statewide Accounting System Estimated Actual Receipts Reports Manager's Financial Reports as of the close. State University System's accounting records.

Current Finding and Recommendations

1. The State University Board uses the Revenue Fund to lease a vehicle for the chancellor.

In September of 1988, the Board office began leasing a vehicle as an additional employment benefit for the chancellor position. The lease was paid for out of a Revenue Fund account. It is inappropriate to use Revenue Fund money for that purpose.

The previous chancellor used the leased vehicle for both business and personal purposes, including commuting to work. It was not available to other system office personnel. The current chancellor uses the leased vehicle for business purposes only, and it is available to other system office personnel.

Currently, the Board office pays the monthly lease payments from a Revenue Fund account. When a board office employee uses the leased vehicle, mileage is recorded and the employee submits a travel reimbursement claim. The amount of the reimbursement applicable to mileage is deposited back to the Revenue Fund account.

There is no statutory authority to pay for the lease out of the Revenue Fund account. The bond covenants of the Revenue Fund allow directly related expenditures to be charged against revenue funds. However, a vehicle for the chancellor or system office use is not, in our view, a direct or related charge for which the Revenue Fund account should be used. Such an expenditure provides no benefit to the Revenue Fund.

Finally, Minn. Stat. Section 16B.55 prohibits, except under certain circumstances, the use of state vehicles for commuting purposes. Under this provision, a state vehicle means a vehicle owned or leased by the state or loaned to the state.

Recommendations

- *The State University System - Office of the Chancellor should discontinue the practice of financing its leased vehicles from the Revenue Fund.*
- *The State University System - Office of the Chancellor should consider central motor pool vehicles for temporary or permanently assigned use.*
- *The State University System - Office of the Chancellor should comply with the provisions of Minn. Stat. Section 16B.55 limiting the use of state vehicles for employee commuting.*

AKITA CAMPUS, JAPAN
BEMIDJI
MANKATO
METROPOLITAN
MOORHEAD
ST. CLOUD
SOUTHWEST
WINONA

September 1, 1992

Mr. Thomas Donahue
Audit Manager
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Donahue:

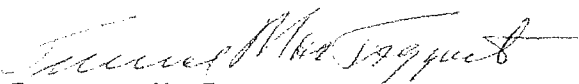
Thank you for the opportunity to review and respond to the August 20, 1992, audit report for this agency for the three fiscal years ended June 30, 1991. With respect to the specific recommendations in your report, we respond as follows:

1. The State University System - Office of the Chancellor should discontinue the practice of financing its leased vehicles from the Revenue Fund.
We concur with the recommendation and have taken action to discontinue financing the leased vehicle from the Revenue Fund. The Revenue Fund will be reimbursed for past charges.
2. The State University System - Office of the Chancellor should consider central motor pool vehicles for temporary or permanently assigned use.
We concur with the finding. Central motor pool vehicles will be considered for use in the future.
3. The State University System - Office of the Chancellor should comply with the provisions of Minn. Stat. Section 16B.55 limiting the use of state vehicles for employee commuting.
We concur with the finding and have initiated changes so that current practice complies with statute.

I want to reiterate that this vehicle is not assigned to an individual. Rather it is primarily used as staff transportation for campus visits and other official purposes.

I want to thank you and your staff for the excellent work that you performed in completing this audit. If you should have any questions regarding our response, please feel free to call.

Sincerely,



Terrence MacTaggart
Chancellor

cc: Ed McMahon, Vice Chancellor for Finance