

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

SEPTEMBER 1992

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

92-63

BEMIDJI STATE UNIVERSITY
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: September 18, 1992

No. 92-63

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Tuition and fee revenues, federal revenues, employee payroll, utility and supply expenditures, and federal financial aid (for fiscal year 1992).
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found three areas where the internal control structure needed improvement:

- Bemidji State University needs to modify employee access to the Statewide Accounting and Payroll/Personnel Systems.
- Cashiers do not adequately explain and receive independent approval of void transactions.
- Bemidji State University needs to improve its federal cash management.

We found no departures from finance-related legal provisions.

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 J. MacTaggart, Chancellor
State University System

Members of the State University Board

Dr. Leslie Duly, President
Bemidji State University

Audit Scope

We have conducted a financial related audit of Bemidji State University 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 Bemidji State University, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Bemidji State University in effect as of March 1992.

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 transaction of Bemidji State University are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Bemidji 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.

Federal Financial Aid

We perform tests on Bemidji State University's federal financial aid programs 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 May 3, 1990, April 8, 1991, and April 9, 1992 and covered fiscal years 1989, 1990, and 1991 respectively. The 1991 management letter contained no findings related to Bemidji State

University. The fiscal year 1990 and 1989 management letters each contained one finding related to Bemidji State University. The fiscal year 1990 finding identified that the college did not provide Perkins funding match timely. The fiscal year 1989 finding identified that no late charges were assessed on delinquent Perkins loan accounts.

Management Responsibilities

The management of Bemidji 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
- 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.

- tuition and fee revenues,
- federal revenues,
- employee payroll expenditures,
- utility and supply expenditures, and
- federal financial aid expenditures.

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Page 3

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.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 3 involving the internal control structure of Bemidji State University. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above are material weaknesses.


We also noted other matters involving the internal control structure and its operation that we reported to the management of Bemidji State University at a meeting held on May 15, 1992.

The results of our tests indicate that, except for the issues discussed in the federal financial aid paragraph, with respect to the items tested, Bemidji 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 Bemidji State University had not complied, in all material respects, with those provisions.

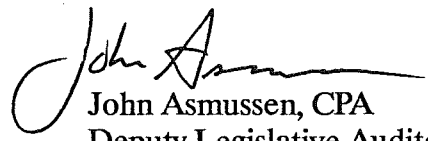
This report is intended for the information of the Legislative Audit Commission and management of Bemidji State University. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 18, 1992.

Representative Ann Rest, Chair
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Page 4

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 15, 1992

Report Signed On: September 11, 1992

Table of Contents

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	4

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
Brad White, CPA	Auditor-In-Charge
Susan Rumpca, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of Bemidji State University at an exit conference on May 15, 1992:

Tom Faeke	Vice President, Administrative Affairs
Jerry Amble	Business Manager
Fred Gilbert	Director of Financial Services
Dennis Burgess	Director of Accounting
John Arneson	Director of Personnel
John Schullo	Director of Financial Aid
Marjorie Gildersleeve	Financial Aid Office

Bemidji State University

Introduction

Bemidji State University is under the management and control of the State University Board and the immediate supervision of the president appointed by the Board. Dr. Lowell Gillett served as president of Bemidji State University until his retirement on June 30, 1990. Dr. Leslie Duly is the current university president.

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 on the statewide accounting system (SWA). However, other activities are accounted for off-SWA, including federal financial aid programs, the State University Revenue Fund (dormitories and student union), and University Activity Funds. Local accounts are maintained for these activities. These off-SWA activities are governed by policies established by the State University Board.

According to state university system records, Bemidji State University collected and spent the following amounts during the audit period:

	<u>Fiscal Year</u> <u>1991</u>	<u>Fiscal Year</u> <u>1990</u>	<u>Fiscal Year</u> <u>1989</u>
Revenues:			
Tuition and Fees	\$ 7,815,747	\$ 7,274,090	\$ 6,718,904
Room & Board	4,175,761	4,097,522	3,875,212
Federal Financial Aid	4,012,439	4,350,009	4,196,991
Federal Grants	1,125,094	1,907,872	2,082,416
Other	<u>5,253,160</u>	<u>3,239,397</u>	<u>2,610,043</u>
Total Revenues	<u>\$22,382,201</u>	<u>\$20,868,890</u>	<u>\$19,483,566</u>
Expenditures:			
Employee Payroll	\$23,347,850	\$21,877,997	\$20,206,443
Financial Aid	4,007,779	4,286,481	4,232,837
Supplies	1,684,810	1,470,138	1,658,903
Utilities	779,391	764,395	698,905
Other	<u>6,855,280</u>	<u>8,856,666</u>	<u>7,698,446</u>
Total Expenditures	<u>\$36,675,110</u>	<u>\$37,255,677</u>	<u>\$34,495,534</u>

Sources: Statewide accounting system, Manager's Financial Reports for fiscal years 1991, 1990, and 1989 as of the closing date.
Bemidji State University Financial Report and accounting system balances for fiscal years 1991, 1990, 1989.

Current Findings and Recommendations

1. The university needs to modify access to the Statewide Accounting and Payroll/Personnel systems.

Bemidji State University allows unnecessary clearance for certain employees and management to enter and process transactions on the Statewide Accounting and Personnel/Payroll systems. The business office staff enter all accounting and payroll transactions for the university. However, higher management and certain staff outside the business office also have the ability to access these systems and enter transactions. Thus, the potential exists for unauthorized transactions or changes to be entered into the system.

The university has authorized some employees to enter transactions which are not consistent with their job responsibilities. For example:

- The personnel director and two personnel office staff have authority to enter and process payroll transactions. These staff should be limited to inquiry capability only. Ideal controls would separate personnel from payroll processing duties.
- Two business office managers have clearance to process transactions, but don't have the responsibility for processing or maintaining payroll.
- Other financial management, including the vice president of academic affairs, have unnecessary clearance to process statewide accounting payments.
- Finally, the payroll supervisor has no responsibility for entering payments into the system, but has clearance to do so.

Recommendation

- *The university should cancel the unnecessary and conflicting transaction authorities which it has granted to some employees.*

2. Cashiers do not adequately explain and receive independent approval of void transactions.

University cashiers void receipt transactions without an explanation and do not obtain independent review and approval. Currently cashiers void the student receipt copy and attach it to the cashier's copy. Without effective void controls, cashiers can void any transaction where a receipt copy was not provided to the student. Voids are sensitive transactions

Bemidji State University

which allow manipulation of cash recorded and actual cash deposited. Usually cashiers follow voids with a correction transaction to the same student account. However, many voids involve a return of funds back to the student and are not corrections. Most susceptible are voids on collections not controlled by the student receivable system.

Effective internal control procedures would require a separate individual review and approve voided transactions. Cashiers should note a reason for the void, especially when there is no obvious correction.

Recommendation

- *University cashiers should document and receive independent approval of voided transactions.*

3. Federal cash management at Bemidji State needs improvement.

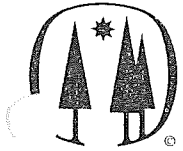
The university does not request federal financial aid funds on a timely basis. The university requests financial aid funds on a reimbursement basis, except at the beginning of each quarter when program expenditures are very large. The university averaged 15 draws each fiscal year or slightly more than once a month. As a result, nonfederal accounts in the university's local bank are losing interest income.

The local interest-bearing bank account contains both federal and nonfederal funds. The nonfederal funds include state grants, private scholarship monies, imprest cash, and student activity funds. The university uses money in the local account to fund federal financial aid checks temporarily. The university has continual negative cash balances in its federal financial aid account and requests federal cash when the negative balance exceeds \$100,000. At times, the amount drawn is not enough to cover negative balances. The university should draw federal cash on a basis consistent with the payment frequency. For example, College Work Study funds should be requested every two weeks as needed for each payroll period.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding technique agencies will use, and to negotiate a state/federal cash management agreement.

Recommendation

- *The university should increase the frequency of its federal cash draws to avoid lost interest to its nonfederal accounts.*



BEMIDJI

STATE UNIVERSITY

OFFICE OF THE PRESIDENT
218-755-2011 / FAX: 218-755-4048
26 August 1992

Mr. James L. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

This is our formal written response to the recommendations listed in the financial audit of Bemidji State University for the three years ended June 30, 1991.

Recommendation No. 1: The University should cancel the unnecessary and conflicting transaction authorities which it has granted some employees.

Response: Bemidji State University will review and remove transaction authority from those individuals that do not use nor under normal operating conditions have need for such authority.

Recommendation No. 2: University cashiers should document and receive independent approval of voided transactions.

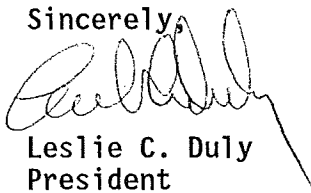
Response: Bemidji State University's Cashier's Office has already put in place a system of requiring two signatures on each void transaction.

Recommendation No. 3: The University should increase the frequency of its federal cash draws to avoid lost interest to its nonfederal accounts.

Response: Bemidji State University will draw cash from the federal government with more frequency while using the reimbursement basis.

We thank you for the recommendations and agree with you on all three issues. I would like to thank your audit team of Mr. Donahue, Mr. White and Ms. Rumpca for their assistance, suggestions and professionalism while visiting our campus. Should you have any questions on the responses, please contact Mr. Amble at (218)755-2743.

Sincerely,



Leslie C. Duly
President

cc: Mr. Thomas A. Faecke, Vice President for Administrative Affairs
Mr. Gerald S. Amble, Business Manager
Mr. Ed McMahon, Vice Chancellor of Finance