

State University System

Selected Scope Financial Audit For the Period July 1, 1993 to March 31, 1995

October 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-47



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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Board of Trustees of the Minnesota State Colleges and Universities

Members of the Board of Trustees of the Minnesota State Colleges and Universities

Dr. Judith Eaton, Chancellor
Minnesota State Colleges and Universities

We have audited selected programs of the State University System for the period July 1, 1993 through March 31, 1995, as further explained in Chapter 1. Our audit scope included: cash management, investments, banking, imprest cash and change funds. Therefore, we emphasize that this has not been a complete audit of all State University System programs. The following Summary highlights our audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the State University System complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Colleges and Universities (MnSCU). This restriction is not intended to limit the distribution of this report, which was released as a public document on October 27, 1995.

We thank the State University System staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 7, 1995

Report Signed On: October 24, 1995

SUMMARY

State of Minnesota

Office of the Legislative Auditor

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

State University System

Selected Scope Financial Audit

July 1, 1993 - March 31, 1995

Public Release Date: October 27, 1995

No. 95-47

Agency Background

The State University System operated seven universities under the control and direction of a nine member board. The State University Board appointed a chancellor to oversee system operations and also appointed university presidents for each university campus. The Chancellor's Office provided policy leadership and coordination of the system as a whole and coordinated financial activities for accounting, budgeting, financial reporting, labor relations, and construction. Dr. Terrence J. MacTaggart was the Chancellor of the State University System until July 1, 1995.

Effective July 1, 1995, the State University System merged with the state's community and technical colleges to form the Minnesota State Colleges and Universities (MnSCU). Our audit examined selected aspects of the state universities prior to the merger. It did not include a review of community or technical college activities.

Selected Audit Areas and Conclusions

Our audit scope included a review of cash and investments, banking services, and imprest cash and change funds for the period from July 1, 1993 through March 31, 1995.

We found that universities lack cash management and investment strategies. Maximum levels for checking accounts have not been established, and as a result, large checking account balances exist at three universities and the Chancellor's Office. Written investment policies are also needed to guide strategy, risk, liquidity, diversification and reporting requirements. We also found specific problems with cash and investment practices and procedures at the various campuses.

We found that certain universities have too many local bank accounts and many of these accounts are not interest-bearing. The larger universities commingle funds in one bank account providing more efficient cash management and administrative controls. Two universities recently bid for bank services, however, accounts at five universities were not bid or have not been bid recently. Three universities have bank balances that are not sufficiently collateralized as required by statute. Also, Credit card fee rates vary between universities.

Finally, we found that university imprest cash and change funds were subject to adequate safeguards, but some need improved accountability. We cite ten findings regarding problems with imprest cash and change funds at the campuses.

Contact the Financial Audit Division for additional information.

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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
Brad White, CPA	Audit Director
Dave Polisenno, CPA	Team Leader
Geniene Herrlich	Auditor
Mark Mathison	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Minnesota State University System on September 12, 1995:

Ed McMahon	Vice Chancellor of Finance
Al Finlayson	Director of Internal Audits

Chapter 1. Introduction

Effective July 1, 1995, the State University System merged with the state's community and technical colleges to form the Minnesota State Colleges and Universities (MnSCU). The State University Board, the Community College Board, and the Technical College Board all ceased to exist on July 1, 1995. The Higher Education Board, created by the Legislature in 1991 to oversee the merger, now has complete responsibility for the Minnesota State Colleges and Universities. The Higher Education Board is now the Board of Trustees for Minnesota State Colleges and Universities. Our audit examined selected aspects of the state universities prior to the merger. It did not include a review of community or technical college activities.

The State University System was comprised of the following universities prior to July 1, 1995:

Bemidji State University	St. Cloud State University
Mankato State University	Southwest State University
Moorhead State University	Winona State University
Metropolitan State University	

These universities operated under the control and direction of the State University Board until the merger. This nine-member board appointed a chancellor to oversee system operations and also appointed university presidents for each campus. Dr. Terrence MacTaggart was the chancellor of the State University System until July 1, 1995. The Chancellor's Office staff provided policy leadership and coordination of the system as a whole and coordinated financial activities for accounting, budgeting, financial reporting, labor relations, and construction, among other things.

The successor to the Chancellor's Office for MnSCU is Dr. Judith Eaton. She assumed her new duties at the beginning of September. Dr. Harry Peterson had previously served as the acting Chancellor.

State universities operate fairly autonomously. Decisions on university structure and program spending priorities are made at the campus level. Individual university operations are financed mainly from state appropriations and tuition assessments. The Chancellor's Office allocates state General Fund appropriations to each university. Minn. Stat. Section 136.031 provides authority for carry forward of unexpended funds from year to year and biennium to biennium. According to statewide accounting system records in the Chancellor's Office, systemwide carry forward balances from fiscal year 1994 to 1995 were approximately \$19.6 million. The systems' operating budget reflects the major financial revenue and expense components as shown in Table 1-1.

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Table 1-1
State University System
Summary of Financial Budget

	1994		1995	
Appropriation allocations	\$175,696,000	62%	\$179,814,000	62%
Tuition and Fees	108,160,000	38%	108,612,000	38%
Total Revenue Budget	<u>\$283,856,000</u>		<u>\$288,426,000</u>	
Personnel Costs	\$211,335,000	74%	\$210,816,000	73%
Operating Costs	72,521,000	26%	77,610,000	27%
Total Expenditure Budget	<u>\$283,856,000</u>		<u>\$288,426,000</u>	

Note: Carry forward balances, the SUS's capital budget and off-SWA activities are not presented.

Source: State University Board Accounting and Allocation Records.

Instructional financial activities of the universities are accounted for on the statewide accounting (SWA) system. State appropriations are the main funding source, while payroll costs represent the largest State University System expenditure. Imprest cash funds, previously advanced from the state treasury, are held in local bank accounts, as well as in change funds at each campus.

Other financial activities are accounted for off-SWA, including federal financial aid, the State University Revenue Fund (dormitories and student union), and university activity funds. Minn. Stat. Section 136.11, Subd. 5, allows university activity fund monies to be administered by each university outside the state treasury. University activity funds encompass a wide variety of accounts for student activities, university agencies, auxiliary enterprises, student loans, gifts, and endowments. Local bank accounts are maintained for these activities. The State University Board has established policies governing off-SWA activities.

Cash and Investments

The majority of university monies are held in the General Fund and flow through the state treasury. This audit did not focus on the funds held in the state treasury. These monies are invested as part of the state's invested treasurers cash (ITC) balances by the State Board of Investment and State Treasurer's Office.

Our review focused on other cash and investments that the State University System manages, outside the state treasury. As Table 1-2 shows, the largest portion of funds are for the State University Revenue Fund, which is managed and controlled by the Chancellor's Office.

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Table 1-2
State University System
Cash and Investments

	<u>June 30, 1994</u>	<u>Percent</u>
State University Revenue Fund:		
Interest-bearing deposits in State Treasury	\$ 1,492,414	2.4%
Cash	1,753,865	2.9%
Investments	<u>39,180,000</u>	63.6%
Revenue Fund	<u>\$42,426,279</u>	
University Local Activity Funds:		
Interest-bearing deposits in State Treasury	\$ 1,667,221	2.7%
Cash	3,956,948	6.4%
Investments	<u>13,582,790</u>	22.0%
Local Funds	<u>\$19,206,959</u>	
Total	<u>\$61,633,238</u>	100.0%

Note: Local activity fund monies are generally lowest during the summer period between academic years.

Source: State University System Systemwide and Revenue Fund Annual Financial Statements.

Investments of both revenue fund and local activity funds fluctuate greatly during the academic school year. During the early months of each academic quarter, funds available for investment are much greater than during the later months. The seasonal flow creates an increasingly important role for the Chancellor's Office and the university staff to manage and control cash and investments at peak periods. As a result, greater care and attention must be made during the school year when cash and investment balances are highest.

Currently, the State University Revenue Fund monies are moved between the universities and the Chancellor's Office. Universities transfer Revenue Fund deposits, for dorm and student union collections, into a Chancellor's Office bank account. The Chancellor's Office invests the Revenue Fund monies for the entire system, handling the debt service requirements, as well as other major expenses. Resident halls and student union operating allocations are sent back out to the universities for payment of operating costs. This movement of funds allows the Chancellor's Office the opportunity to centrally invest monies in order to optimize investment income. It primarily establishes control over the debt service reserves for upcoming periods.

State University Revenue Fund investments are made into a wide variety of investment types as further described in Chapter 2. Minn. Stat. Section 136.31, Subd. 5, provides that monies not currently needed, or in reserve, may be invested in securities of the types described in Minn. Stat. Section 475.66. Money collected from the investment must be credited back to the fund or account from which the investment was made. The Chancellor's Office invests excess State University Revenue Fund monies and also provides assistance to certain universities with the investment of their excess monies as well.

Universities maintain local checking, savings, money market, and investment accounts to manage student activity funds, loans, scholarships, and endowments. Universities act in a fiduciary

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capacity over these student funds. Investments are generally short-term securities or held in savings until needed. University cash and investments do not include foundation monies which are a separate legal and financial entity and are not invested by the state university staff. We identified the following legal provisions which provide universities the authority to invest local funds:

- Minn. Stat. Section 136.142, Subd. 2, requires excess activity funds to be invested in securities authorized as legal investments.
- Minn. Stat. Section 136.47 also authorizes the investment of student loan funds not currently needed.

A large portion of university controlled cash and investments are generated from student activity fees. Each student is assessed activity fees at the rate approved by the State University Board pursuant to Minn. Stat. Section 136.11, Subd. 2. Fees are collected and deposited into local bank accounts. Each university has a formal Student Activity Fund committee comprised of student representatives and university administration. The committee prepares and monitors an annual budget, which is reviewed and recommended by the student senate, and approved by the university president. Decisions are made on what types of activities and programs are to be funded.

To accommodate the high volume of seasonal transactions, state universities open local bank and investment accounts. Chapter 3 discusses university selection of banking services and the associated banking fees. Banks must assign collateral to protect university deposits in the university local accounts. Payment of tuition and fees, as well as room and board, by credit card is increasing at state universities. Credit card collections flow into the university bank accounts and associated credit card fees are paid out of the account.

State universities also have a need for actual cash to be on the premises. Cash is needed in cashier areas for tuition, fees, and room and board collections from students. Student unions, resident halls, theaters, and athletic departments need cash for operations. Moorhead and Winona State Universities own and operate their own bookstores, which create additional cash needs. Imprest cash checking accounts are also used for payment of student refunds and minor disbursements. Chapter 4 discusses our review of cash and imprest cash operations.

Chapter 2. Cash Management and Investments

Chapter Conclusions

Universities lack cash management and investment strategies. Three universities and the Chancellor's Office maintain large cash balances in their local checking accounts. Maximum checking account levels have not been established to prompt investment of excess funds. Written investment policies are also needed to guide strategy, risk, liquidity, diversification and reporting requirements. We found that Mankato State University has a much more aggressive investment portfolio than other campuses which typically invest in short-term, low risk instruments or savings accounts with minimal return. However, Mankato has invested \$4.8 million into a higher risk investment fund that acquires investments which would be unauthorized for the university to invest in directly. We found that universities lack cash management policies regarding frequency and amount of Revenue Fund transfers. We also noted that investment controls are weakened by not separating incompatible staff responsibilities. Concerns with timeliness of bank reconciliations and negative account balances were noted. Interest is directed back to the accounts from which the investment is made, however, campuses retain a portion or all of pooled interest earnings for discretionary administrative spending. For example, St. Cloud leases vehicles for its president and athletic department using a portion of the interest earnings generated from local activity fund investments.

Each university manages cash and investments for student activity, auxiliary, scholarship, and endowment funds. The Chancellor's Office manages cash and investments for university resident halls and student unions in the Revenue Fund.

Individual university cash and investment activities flow through its local bank and investment accounts. Each university has the authority to invest funds in various investments generally subject to the authorized investment types specified in Minn. Stat. Sections 475.66 and 50.14. While these authorized investment types are not extremely risky, they allow for a wide variety of diverse investments, which each have different risks associated. Investments are subject to the volatility of market conditions and must be monitored to spread risk and optimize returns.

We focused our review on the following specific objectives:

- Do universities have effective policies and strategies to manage cash balances in order to minimize idle cash and optimize investment income?
- Do universities sufficiently control recorded and actual cash and investment balances?

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- Do universities reasonably distribute interest earned to the local accounts?

In order to assess whether reasonable financial control existed, we reviewed cash management and investment processes with university and Chancellor's Office staff. We analyzed all university bank statements to assess the actual level of cash in local bank accounts, as well as to identify bank fees charged and interest earned. We reviewed university accounting system reconciliations to bank balances. Examining investment types and duration gave us insight on the risk and timing of investment decisions being made. We also reviewed transfers made between bank accounts, primarily involving transfers between the individual university and the Chancellor's Office Revenue Fund accounts. Finally, our audit included a review of the interest earnings collected and distributed as a result of the investing activities.

Policies and Strategies

Cash and investment policies establish a basis for effective management strategies and decision making. They portray management expectations for employees to follow in managing the university's monies. Effective cash strategies generally attempt to minimize cash levels held in checking accounts, allowing for greater investment opportunities. Investment strategies focus on portfolio diversification, as well as duration and liquidity needs, in order to reduce risk of losses and avoid cash shortfalls.

We found that universities have not developed formal cash management and investment strategies. As a result, certain university checking accounts have accumulated to a significant level and are not actively invested. These accounts may earn minimal interest or no interest at all on their balances. The universities have not pursued investment options that will optimize potential interest revenue. One problem hindering investing decisions is that universities lack investment policies, as reported in finding 1, identifying the timing and duration of investments. Ideally, investment decisions should be linked to anticipated cash and budgetary needs.

Another area of concern is in the timing of Revenue Fund cash transfers between the universities and the Chancellor's Office. Certain campuses hold deposits longer and request operating advances beyond immediate operational needs. This increases the balances in the university controlled bank accounts, while reducing the amount available for investment in the Chancellor's Office account.

1. Universities have not established cash management and investment strategies.

State universities lack cash management and investment directives to guide decision-making. As a result, certain universities have allowed significant balances to accumulate in local checking accounts, earning minimal interest or no interest at all. They also do not have current written policies addressing investment strategies and risk. Without effective policies and strategies, cash management and investment decisions can result in lost investment opportunities, excessive risk exposure, or unauthorized investments.

University bank statements show that substantial amounts of money are held in certain local checking accounts. Table 2-1 identifies the local checking account balances for each campus:

Table 2-1
State University System
Local Checking Account Balances and
Annual Average Daily Bank Balances

<u>University</u>	<u>6/30/94</u> <u>Balances</u>	<u>FY 1994</u> <u>Avg. Daily Bal.</u>	<u>3/31/95</u> <u>Balances</u>	<u>FY 1995</u> <u>Avg. Daily Bal.</u>
Bemidji	\$ 990,686	\$1,323,753	\$1,658,220	\$1,508,239
Mankato	945,691	662,926	1,398,309	1,507,953
Moorhead	679,806	1,191,414	1,463,237	1,447,830
St. Cloud	181,430	179,911	(2,151,870)	185,979
Winona	118,120	203,829	381,399	216,013
Chancellor's Office	1,644,450	1,921,894	2,708,713	1,973,029
Southwest	126,075	195,103	171,322	199,344
Metropolitan	61,919	97,474	287,844	209,110

Note: Overdrawn St. Cloud balance was resolved on the next business day.

Source: University and Chancellor's Office bank statements for all bank accounts.

Table 2-1 shows Bemidji, Moorhead, and Mankato State Universities, as well as the Chancellor's Office, have average daily bank balances in excess of \$1 million in local checking accounts. Most of these funds are held in interest bearing accounts. However, more interest earnings could be generated if these funds were held in savings or invested in securities. Bemidji and Moorhead State Universities use Chancellor's Office staff to invest their monies, but they have not transferred any new investment funding for several years despite the growth in checking account balances. St. Cloud, Winona, Southwest, and Metropolitan State Universities generally invest excess checking account funds into short-term, low-risk investments which earn a slightly better return. These universities appear to limit local checking account levels and invest excess funds.

Some universities have not established maximum checking account levels. The level maintained in checking accounts is a cost-benefit decision which must be made by the management of each campus. The potential for additional investment income earned must be balanced against the liquidity needs and the administrative costs necessary to monitor bank balances. Essentially, universities should attempt to minimize the amount held in checking.

State universities do not have current written investment policies addressing investment strategies and risk. Some universities have old policies; most date back to the late 1970s or early 1980s and are not being followed. The Chancellor's Office has not also updated its investment policy and staff purchase investments that are not authorized by the policy. An effective policy should identify authorized investment types, level of risk management desires to assume, portfolio diversification requirements, duration and liquidity needs, and reporting of portfolio holdings and performance to management.

Minn. Stat. Section 136.31, Subd. 5, provides that monies not currently needed, or in reserve, may be invested in securities of the types described in section 475.66. Money collected from the investment must be credited back to the fund or account from which the investment was made. Investments are made into a wide variety of investment types. Table 2-2 identifies the investment balances for individual universities and the Chancellor's Office as of March 31, 1995.

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Table 2-2
State University System
Investment Balances by Type
March 31, 1995

Investment Type	Bemidji	Mankato	Moorhead	St. Cloud	Winona	Chancellor's Office	Southwest	Metropolitan
Savings/Money Market	\$ 0	\$ 500,182	\$463,658	\$ 0	\$ 407,980	\$ 0	\$ 534,000	\$295,723
The Common Fund	0	4,868,530	0	0	0	0	0	0
Certificates of Deposit	535,000	100,000	96,510	3,750,000	2,643,205	985,000	534,115	50,000
Repurchase Agreements	75,000	0	0	4,500,000	0	0	0	0
Short-Term Bank Notes	0	0	0	0	0	0	0	25,000
Commercial Paper	450,018	0	0	0	0	14,425,000	0	0
Gov't T-Bonds/Bills	0	1,463,132	0	0	11,623	4,645,000	0	0
GNMA/FNMA/FHLMC	0	1,474,251	0	0	0	21,385,000	0	0
Common Stock	11,305	0	0	0	555,021	0	0	0
Total	\$1,071,323	\$8,406,095	\$560,167	\$8,250,000	\$3,617,829	\$41,440,000	\$1,068,115	\$370,723

Note: Bemidji and Winona State Universities received common stocks as gifts and were not purchased by university staff.
Source: University and Chancellor's Office investment records as of March 31, 1995.

Table 2-3 identifies the investment balances for individual universities and the Chancellor's Office as of June 30, 1994.

Table 2-3
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Investment Balances by Type
June 30, 1994

Investment Type	Bemidji	Mankato	Moorhead	St. Cloud	Winona	Chancellor's Office	Southwest	Metropolitan
Savings/Money Market	\$ 0	\$ 885,747	\$275,975	\$ 0	\$1,034,948	\$ 0	\$270,000	\$385,369
The Common Fund	0	13,420	0	0	0	0	0	0
Certificates of Deposit	535,000	133,965	97,604	3,750,000	2,530,000	2,300,000	527,488	0
Repurchase Agreements	75,000	0	0	2,200,000	0	0	0	0
Short-Term Bank Notes	450,000	0	0	0	0	0	0	0
Commercial Paper	0	0	0	0	0	13,325,000	0	0
Gov't T-Bonds/Bills	0	1,265,359	0	0	20,731	6,645,000	0	0
GNOME/FNMA/FHLMC	0	1,274,599	0	0	0	16,910,000	0	0
Common Stock	11,305	0	0	0	726,958	0	0	0
Total	\$1,071,305	\$3,573,090	\$373,579	\$5,950,000	\$4,312,637	\$39,180,000	\$797,488	\$385,369

Note: Bemidji and Winona State Universities received common stocks as gifts and were not purchased by university staff.
Source: University and Chancellor's Office investment records as of June 30, 1994.

Our review of investment policies and practices at the universities disclosed the following:

- Mankato State University has a much more aggressive investment portfolio than other campuses. Mankato invests in a higher risk short-term fund ("The Common Fund") as discussed in finding 3. The university invests in governmental treasury notes and bonds as well as mortgage-backed investments. However, Mankato estimates that one employee devotes 15 to 25 percent of their time on investment functions during the early part of each academic quarter. Other universities, with less aggressive investments, indicate that their staff devote an insignificant amount of time to investing activities.

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- The Chancellor's Office has an investment policy which lists authorized and unauthorized investment types. As of March 31, 1995, the Revenue Fund held \$14,425,000 in unauthorized investments consisting of top-rated commercial paper. However, commercial paper is a legal investment authorized by Minn. Stat. Section 475.66, Subd. 3(e). The Chancellor's Office needs to decide if investment policy should be more stringent than law. It must also ensure that investment purchases conform to the policy.
- Bemidji State University has an investment policy, dated September 1, 1978, limiting investments to certificates of deposit. However, current investments actually being made are not in compliance with this policy. Specifically, repurchase agreements, short-term bank notes, and commercial paper are not allowed by the old investment policy.
- St. Cloud and Bemidji State Universities continually reinvest short-term Certificates of Deposit (CD) as discussed in finding 4. Higher interest rates could be negotiated and earned if funds were simply invested over a longer maturity period.
- University investment decisions are not tied to the budget cycle. The universities generally collect and disburse more money in the first few weeks of each quarter. Each university also may have its own unique budgetary situations. An investment policy should address the budgetary needs of the university and develop an investment strategy accordingly.
- The universities generally do not prepare periodic investment reports to inform management of portfolio holdings and performance. Reports could be prepared monthly or quarterly identifying authorized investment types, as well as expected and actual income earned for the period.

Without effective and current cash management and investment policies, employees lack direction and awareness of management intentions, strategies and levels of acceptable risk. Universities must establish clear investment policies that consider the return as well as the safety of the investments, meet the daily cash flow demands of the universities and conform with statutes governing investment of public funds.

Recommendations

- *The Chancellor's Office, along with Bemidji, Moorhead, and Mankato State Universities should establish a reasonable maximum level for checking accounts, investing excess funds beyond the desired level.*
- *State Universities should develop written investment policies identifying authorized investment types, as well as investment strategy, risk, liquidity, diversification and reporting requirements.*
- *The Chancellor's Office should update its Revenue Fund investment policy and ensure that investment purchases conform to this policy.*

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2. Cash management policies for the Revenue Fund have not been developed.

Formal cash management policies for Revenue Fund transfers have not been developed. As a result, universities have inconsistent practices. Bemidji and Moorhead State Universities do not transfer Revenue Fund deposits to the Chancellor's Office timely. Moorhead and Mankato State Universities receive Revenue Fund operating advances beyond immediate spending needs. The Chancellor's Office should formalize a written policy outlining practices to be followed.

Bemidji and Moorhead State Universities delay their transfer of Revenue Fund deposits to the Chancellor's Office. The delay causes funds to remain idle in local bank accounts until transferred. Once transferred, the funds can be invested by Chancellor's Office staff. Other universities transfer funds daily, weekly, or when balances exceed \$25,000. An internal communication, dated November 3, 1986, instructed universities to transfer funds each week on Monday, or when the balances of the account exceed \$25,000. This message has not, however, been stated in a formal policy nor has been reinforced recently.

Bemidji State University holds Revenue Fund deposits for several weeks before transfer to the Chancellor's Office. For fiscal years 1994 and 1995, the university's average transfer was \$160,000. Moorhead State University transfers Revenue Fund deposits weekly, even during peak periods when the amounts are well in excess of \$25,000. Transfers were as high as \$393,000 for the residence halls and \$119,000 for the student union when balances had accumulated to over \$25,000 during the preceding week.

Most universities receive Revenue Fund operating monies from the Chancellor's Office, reimbursing actual costs incurred. However, Moorhead and Mankato State Universities request more than is needed for immediate spending. Moorhead State University obtained several operating advances ranging from \$75,000 to \$150,000 when its account balances were low. Mankato State University added \$3,000 to the student union request and \$15,000 to the residence halls amount requested. This gave the university some flexibility until the next operating advance was requested, generally two weeks later. Requesting excess funds lessens funds available for investment. The Chancellor's Office has not developed a written policy regarding the amount of Revenue Fund operating advances that can be requested by the universities.

Recommendations

- *The Chancellor's Office should formalize a written policy on the frequency, timing, and amount of Revenue Fund deposit transfers and operating requests that should be made by universities.*
- *Bemidji and Moorhead State Universities should transfer dorm and student union deposits weekly or when accumulative deposits reach \$25,000.*
- *Moorhead and Mankato State Universities should request operating advances based on immediate spending needs.*

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3. Mankato State University invests in a high risk fund, called "The Common Fund", which acquires unauthorized investments.

Mankato State University has a \$4.8 million investment, as of March 31, 1995, which may not be a safe, low risk investment and does not comply with statutory authorized types. The Common Fund prospectus authorizes its short term fund to acquire futures and options contracts, international corporate debt obligations and certain higher risk mortgage-backed securities. Mankato State University does not have the legal authority to directly acquire these types of securities. As a result, the university should not invest in a fund that acquires such securities.

Minnesota Statutes specify that investment in shares of an investment company are restricted to those that invest in obligations of the United States government and its instrumentalities, are registered under Investment Company Act of 1940, and whose shares are registered under the Securities Act of 1933. Additionally, savings or other accounts must be insured by the Federal Deposit Insurance Corporation (FDIC). We found that the Common Fund has a higher risk portfolio, is exempt from registration under the Investment Company Act of 1940, and units of the fund are not registered under the Securities Act of 1933. The fund is also not insured by the FDIC.

Recommendation

- *Mankato State University should liquidate its investment in the Common Fund. The university should ensure that all future investment fund holdings qualify as authorized investments for the university.*

4. Two universities continually reinvest in bank Certificates of Deposit (CDs).

We noted that two universities repeatedly invest in low risk investments, such as repurchase agreements and certificate of deposits (CDs) with short-term maturities. These universities do not have an effective strategy on duration of the investments. We made the following observations:

- St. Cloud State University has three CDs totaling \$3,750,000 that it continually reinvests every six months. The university solicits bids from local banks but only for a six month period. The original CDs were acquired prior to 1993.
- Bemidji State University has CDs totaling \$535,000 that were acquired several years ago. The CDs had maturity periods of six to eight months. Once the CDs matured, the amount was reinvested for another short-term period.

Universities need to understand the timing of cash needs, and accurately forecast cash balances, in order to maximize short term investment income. Better interest rates could be negotiated if the CDs were invested for longer maturity periods.

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Recommendation

- *St. Cloud and Bemidji State Universities should reevaluate current investing practices and attempt to invest in securities with maturities that more closely match anticipated cash needs.*

Internal Controls

Effective cash and investment controls are critical when dealing with sensitive assets. The controls must ensure that recorded balances actually exist and are accurate. Generally, staff responsibilities must be segregated to assure an independent verification of bank and investment balances.

We found that universities have effective cash reconciliations of balances recorded on the accounting system to the bank statements. However, two campuses did not reconcile their accounts timely. We also found that investment responsibilities are usually concentrated in one individual.

5. Universities have not adequately documented approval for investment purchases and separated incompatible investment responsibilities.

University investment practices have informally developed and grown over the years. We noted several weaknesses with these practices. We found that universities do not document approval of investment purchases or properly control investment transactions through the separation of incompatible duties. Without effective internal controls, universities are subject to increased risk of theft or concealment, bad investment decisions, or lack of management awareness regarding portfolio composition, risk and return.

We found that universities did not always retain bid information and that management approval of investment purchases was generally given verbally and not documented. Formal management approval of investment purchases should be documented to ensure that the bid selection and investment decision is authorized.

Universities lack separation of duties in handling of investments. Most universities have one individual involved in the investment process. This individual is responsible for bidding, approving, and recording of the investment transactions. This same individual is also responsible for subsequent comparison of recorded balances on the accounting system to the investment company or trustee bank statements. Without proper separation of duties and a structured approval process, errors or irregularities could occur and not be detected. An independent verification is necessary, similar to a bank account reconciliation, to ensure that investments exist and are accurately recorded.

Recommendation

- *Universities should improve internal controls over investments by:*
 - *documenting management approval of investment purchases and bids; and*
 - *separating incompatible duties between accounting for and comparison to investment company or trustee bank statements.*

State University System

6. Two universities did not reconcile accounting records to local bank accounts timely.

Mankato and Bemidji State Universities did not compare their accounting system balances to the bank statement timely during fiscal year 1995. The universities process a large volume of student financial aid, payroll, and other checks which creates a need for frequent comparison of accounting balances to bank balances. Without a bank reconciliation, these universities increase the risk of bank errors or accounting system differences not being detected.

The Mankato State University business office did not reconcile the accounting system to the bank statement for the period August through December, 1994 until February, 1995. Once reconciled, corrections had to be made to the accounting records. The untimely detection and correction of large accounting differences can result in management decisions being based on misleading balances. The university disburses federal financial aid through this local bank account and bank activity has increased substantially over prior years.

Bemidji State University business office allowed reconciliations for several bank accounts to go uncompleted for over five consecutive months. The university should promptly reconcile its local checking accounts each month, notifying the banks of any errors, and immediately initiate any accounting corrections.

Recommendation

- *Bemidji and Mankato State University business offices should reconcile accounting records to the bank statement on a timely basis.*

7. University account balances are allowed to go negative.

State universities allow negative account balances in their local accounts. The business offices will process transactions from program accounts even though they do not have a sufficient cash balance on hand to disburse funds. In essence, a negative balance allows an account to borrow from other accounts. Some programs have multiple accounts where revenue is deposited in one account but funds are disbursed from another account. As a result, staff cannot efficiently determine the cash status of the program. Administrative time and effort is needed to ensure that negative balances are eventually recovered. Ideal cash management control would attempt to minimize negative account balances or only allow them with formal approval. If funds are allowed to go negative it seems logical that a reasonable interest cost be assessed. Mankato State University has a formal policy to assess eight percent interest to accounts with negative balances over \$100; however, other universities do not have a similar policy. There also appears to be no formal process to approve negative account balances.

Recommendations

- *Universities should attempt to discourage negative account balances and require a sufficient cash balance on hand to fund cash outflows. A process to approve negative balances should be developed and reasonable interest charges assessed.*

State University System

Interest Distribution

Interest earned and collected from investments should be deposited to the fund or accounts from which the investment funds were derived. Endowments, bookstores, and other auxiliary accounts are generally large enough to hold separate investments. However, student activity funds are generally pooled and invested along with other smaller accounts. Interest must then be distributed back to these accounts.

We reviewed the distribution of interest for pooled investment accounts. The interest distribution rates and methods varied widely between universities. We noted that many universities retain a portion or all of the pooled interest earnings for discretionary spending purposes. St. Cloud State University, for example, leases vehicles for the university president and athletic department using part of its pooled interest earnings.

8. Universities do not distribute all interest back to local activity accounts.

Moorhead and Metropolitan State Universities distribute no interest back to the local activity accounts. Winona State University is the only campus that distributes 100 percent of the pooled interest earnings, while the remaining universities distribute a portion. The balance of pooled interest earnings is retained for discretionary administrative spending purposes.

Table 2-4 reflects the different university distribution rates and methods.

Table 2-4 State University System Activity Account Distribution Rates		
<u>University</u>	<u>Distribution Rate or Amount</u>	<u>Administrative/Discretionary Rate or Amount Retained</u>
Bemidji	80% of interest earned	20% of interest earned
Mankato	Monthly U.S. Treasury Bill rate	Excess after T-Bill rate distribution and payment of bank and credit card fees
Moorhead	None	100%
St. Cloud	3% (FY 1994) of account balance	Excess over 3% interest distribution
	1.5% (FY 1995) of account balance	Excess over 1.5% interest distribution
Winona	100% of interest earned	None
Southwest	Excess after .5 position and payment of bank fees	Half-time salary of Business Office position and bank fees.
Metropolitan	None	100%
Source: University Policies or discussions with university staff.		

State University System

Most universities justified retaining interest earnings due to unbilled accounting services provided to the activity accounts. However, they have prepared no formal cost analysis for allocating business office costs to these accounts. University activity funds should be provided an equitable share of interest earnings beyond the allocated accounting costs attributed to them. There is no evidence available from Moorhead and Metropolitan State Universities to suggest that allocated business office costs exceed the interest earnings generated.

Recommendation

- *Universities should distribute pooled interest earnings back to local activity accounts. A portion may be allocated towards accounting services provided to local accounts, however, these funds should be deposited into the state treasury and used to reimburse business office costs.*

9. St. Cloud State University uses a portion of pooled interest earnings to finance vehicle leases.

St. Cloud State University spent \$14,440 in fiscal year 1994 and \$10,439 in fiscal year 1995, through March 31, 1995, to lease vehicles for the university president and athletic department. The vehicle lease payments were financed from interest earnings from pooled investment of local accounts. For fiscal year 1994, the university distributed three percent interest to account balances. This distribution was reduced in half, to one and one-half percent, for fiscal year 1995. The reduced distribution to the local accounts increased the share available for discretionary spending purposes.

The university distributed pooled interest earnings of approximately \$200,000 in fiscal year 1994. The university distributed about half of this back to the activities accounts and transferred half to a president's discretionary account. The university paid for miscellaneous administrative expenses from the discretionary account. It also paid for part of a vehicle leased for the president's exclusive use. The president personally paid some of the lease costs. The university also leased three or four vehicles for the athletic department which is used primarily for recruiting visits by coaches. Staff indicate that the coaches use them for university business only and turn them in after the recruiting season.

Recommendation

- *St. Cloud State University should more equitably distribute pooled interest earnings to the local activity accounts.*

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Chapter 3. Bank Services and Costs

Chapter Conclusions

Some state universities have too many local bank accounts and many of these accounts are not interest-bearing. The larger universities commingle funds in one bank account providing more efficient cash management and administrative controls. Two universities recently bid for bank services, however, accounts at five universities were not bid or have not been bid recently. We noted that bank fees are generally waived, forgoing potential interest income, without periodic analysis by the universities. This may not be favorable for campuses with larger bank balances. Bemidji, Metropolitan, and Moorhead State Universities have bank balances that are not sufficiently collateralized as required in state statute. Credit card fee rates vary between universities. Mankato State University does not verify the propriety of credit card fees posted against its bank account.

State universities need local banking services for student activity funds, residence halls, student union, auxiliary operations, financial aid, scholarships and endowments. Generally, these accounts handle a large volume of checks which must be prepared and printed through university check writer software. Mankato, St. Cloud, and more recently Moorhead State Universities, have consolidated all activity into one main bank account. Other universities tend to use separate bank accounts for various fund activities. Some universities have a separate bank account for deposits clearing which direct funds to other accounts. Additionally these universities may have Revenue Fund deposits clearing accounts for the residence halls and student union, prior to transfer to the Chancellor's Office for investment. Table 3-1 identifies the number of local bank accounts used by each university:

Table 3-1
State University System
Number of Local Bank Accounts
As of March 31, 1995

University	Checking	Savings
Bemidji	6	0
Chancellor's Office	6	0
Mankato	1	1
Metropolitan	2	0
Moorhead (1)	11	3
St. Cloud	1	0
Southwest	4	0
Winona	4	1

(1) Moorhead State University closed several accounts in April, 1995 and now has one cash management account.

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State universities cash on deposit is protected by collateral pledged against the bank balances in addition to Federal Deposit Insurance Corporation (FDIC) insurance of \$100,000. Minn. Stat. Chapter 118 governs depositories of public funds. Section 118.01, Subd. 2 requires that banks furnish collateral, computed at its market value, of at least ten percent more than the amount on deposit at the close of the business day in excess of the insured portion.

We focused our review on the following objectives:

- Do universities competitively bid bank services and fees charged?
- Do universities ensure sufficient collateral is pledged to protect its deposits?
- Do universities negotiate and control credit card fees?

We gained an understanding of banking relationships by reviewing bank contracts, requests for proposals and bid documents. We discussed banking needs with university personnel and the Chancellor's Office staff. Banking costs and credit card fees were determined from the bank statements and merchant agreements.

Bank Accounts

Universities should periodically bid bank services to ensure they receive the best interest earnings on account balances and to obtain the lowest bank costs possible. Bids allow universities to determine whether bank services being used are competitive and cost-effective. As noted in finding 10, five universities have established an excessive number of local bank accounts. We also noted in finding 11 that certain universities have not bid their bank accounts for several years.

FDIC insurance and collateral requirements are an essential protection required by Minnesota Statutes. Universities need to monitor collateral pledged by the banks to ensure they are sufficient to protect university deposits in the event of bank failure. We found three universities did not monitor collateral requirements and had insufficient collateral pledged by their banks as discussed in finding 12.

10. Three universities have an excessive number of local bank accounts.

We recognize that universities have diverse banking needs, but believe that certain universities have too many local bank accounts. Universities may be able to better manage bank cash balances available for investment and monitor collateral if one account is used. The largest universities, Mankato and St. Cloud, have only one local bank account and utilize their internal accounting systems to distinguish ownership, as well cash inflows and outflows for the period. Moorhead State University previously had eleven separate checking accounts and three savings accounts between two local banks. As previously noted in Table 3-1, the university closed numerous accounts in April, 1995 and opened a single cash management account. Bemidji, Southwest, and Winona State Universities had multiple bank accounts:

State University System

- Bemidji uses six local checking accounts. Three of these accounts were deposits clearing or revolving accounts. Revenue Fund dorm and student union deposits are delayed, flowing through two deposits clearing accounts, until transferred to the Chancellor's Office for investment.
- Winona has four local checking accounts and one money market savings account. One of these is a deposits clearing account. A second account is used for student payroll and work study. Residence halls, student union, student activities, and auxiliary activities are pooled in a separate account.
- Southwest has four checking accounts which are also used for residence halls, student union, student activities, and auxiliary activities.

The use of numerous local bank accounts has many inefficiencies. University staff have to initiate a bank transfer or write checks to move deposits to other accounts. Check writing features are hampered by having to change blank checks in the printer. Additionally, each account requires a separate monthly bank reconciliation to ensure that the accounting system balance agrees with the bank balances.

Recommendation

- *Bemidji, Southwest, and Winona State Universities should each consider consolidating checking accounts and utilize their accounting systems to distinguish ownership of funds.*

11. Certain universities have not bid for bank services for several years.

Some universities have not bid bank services since the late 1980s. Many were not rebid, in part, because bank fees are waived. We found, however, that accounts with waived bank charges also did not earn interest. Universities with large bank balances are forgoing greater possible interest earnings than bank charges. These universities did not prepare any form of cost analysis that compared bank charges against interest earnings. Mankato and Moorhead State Universities, recently rebid their banking services with successful financial results. Mankato State University bank fees dropped substantially from \$40,000 to \$17,500 as a result of bids. Moorhead State University has consolidated its numerous non interest-bearing accounts into a cash management account which allows it to effectively invest excess account balances.

Other universities have not recently evaluated their banking options and competitively bid services. Table 3-2 identifies the most recent year that bank bids were solicited from each university.

State University System

Table 3-2
State University System
Bank Account Bid and Fees

<u>University</u>	<u>Year Last Bid (1)</u>	<u>FY 1994 Bank Fees</u>	<u>FY 1994 Average Bank Balances Earning Interest</u>	<u>FY 1994 Average Bank Balances Not Earning Interest</u>
Bemidji	1987	waived	\$1,309,312	14,441
Chancellor's Office	indeterminable	\$ 2,929	1,868,624	53,270
Mankato	1991	\$17,500	662,926	0
Metropolitan	1987	waived	0	97,474
Moorhead (2)	indeterminable	waived	548,498	642,916
St. Cloud	indeterminable	waived	0	179,911
Southwest	indeterminable	\$ 3,145	195,103	0
Winona	1988	waived	0	203,829

(1) The actual date of certain bank bids could not be determined. Generally, staff indicated that these were bid sometime in the late 1980s.

(2) Moorhead State University closed several accounts in April, 1995 and now has one cash management account.

Source: University bank bid records and bank statements for all bank accounts.

Universities are foregoing interest income on certain checking account balances. Table 3-2 identifies the checking account balances which were idle and not earning interest. It may not be a favorable arrangement for certain campus bank accounts with larger balances.

Some universities are not using certain banking features such as electronic funds transfers (EFT) or electronic access. Electronic funds transfer payments can be made using automated clearing house (ACH) transfers. ACH transfers allow university staff to initiate electronic funds transfers through a structured security process. Electronic access allows staff to immediately determine whether an incoming transfer from an outside funding source has been received.

We also noted that certain universities will open bank accounts at other local banks that were not awarded the main bank contract. These accounts are opened as a community goodwill gesture and may not contain the most cost-effective services.

Recommendation

- *State Universities should periodically rebid and reevaluate all banking services to determine whether services are competitive and cost-effective.*
- *Universities that utilize non interest-bearing accounts should obtain a periodic analysis comparing interest foregone to the fees waived.*

12. Bemidji, Metropolitan, and Moorhead State Universities have insufficient bank collateral pledged to their accounts.

Bemidji, Metropolitan, and Moorhead State Universities did not monitor the collateral assigned to protect bank balances. As a result, their local banks have not provided the additional collateral

State University System

necessary to comply with state statute. As discussed in Chapter 2, bank balances have grown at these campuses due to lack of an investment strategy. Minn. Stat. Section 118.01, Subd. 2 requires uninsured balances must be pledged with collateral, computed at market value, of at least ten percent more than the amount on deposit at the close of the business day. The Federal Deposit Insurance Corporation (FDIC) insures a level of \$100,000 and any excess must be collateralized by the bank institution. Universities incur additional risk, even though it is the bank's contractual responsibility to provide collateral sufficient to comply with state statute. Without adequate collateral, the university bank balances are subjected to the risk of bank failure and could result in loss of university funds.

Collateral pledged by one Bemidji State University bank was insufficient for most of fiscal year 1995. The bank handling the revolving and non state accounts has pledged \$1,100,000 in addition to the FDIC insured level of \$100,000. However, the combined balances of these accounts exceeded \$2.5 million on sixteen days in fiscal year 1995 and fifteen days in fiscal year 1994. During November, 1994, bank balances ranged between \$1,758,578 to \$2,693,422. The accounts have grown substantially and additional collateral has not been requested from nor pledged by the bank. Bemidji also has other accounts at a separate bank which hold the residence hall deposits and operating monies. The bank balance exceeded \$300,000 on seven days, \$200,000 on nineteen days, and \$100,000 forty-nine days so far in fiscal year 1995, yet the bank has failed to pledge any collateral beyond the amount insured by the FDIC.

Moorhead State University has average daily bank balances which exceed the Federal Deposit Insurance Corporation (FDIC) insurance level of \$100,000 plus collateral pledged by the bank. Prior to consolidating accounts in April, 1995, the unconsolidated bank accounts had \$500,000 collateral pledged while the average daily bank balance of the accounts was over \$1.5 million. During fiscal year 1995, the bank balance exceeded \$3 million on forty-one days, \$2 million on forty-five days, and \$1 million on 80 days. The new consolidated account has only \$500,000 of collateral pledged which will not be sufficient unless bank balances are kept much lower than in past months.

Metropolitan State University does not ensure proper collateralization of bank balances. During the last six months, the university checking account only dropped below \$100,000 once. Account balances went as high as \$465,959 and averaged over \$200,000 during the last six months.

Recommendation

- *Bemidji, Metropolitan, and Moorhead State Universities should establish a process to monitor bank collateral pledged to protect bank balances. Universities should keep bank balances below the collateralized level, investing funds as necessary, or prompting the bank to furnish the additional collateral required.*

Credit Card Fees

Credit card payment for tuition and housing is becoming a common practice for public and private universities. It is a convenience as well as an expectation of some students and parents. However,

State University System

Credit card payment for tuition and housing is becoming a common practice for public and private universities. It is a convenience as well as an expectation of some students and parents. However, the universities must pay the credit card fees. We reviewed credit card arrangements to determine whether fees were negotiated and controlled by the universities.

We found that universities paid a wide range of credit card fee rates. No system wide credit card contract has been negotiated, rather each university has an individual contract. Additionally, Mankato State University, the largest campus with credit card collections, accepts the amounts assessed and does not consistently receive documentation supporting the credit card charges paid from its bank account.

13. The State University System has widely varying credit card rates.

We noted that state universities have individual credit card merchant agreements. Since these fees are negotiated based on credit card sales volume, smaller universities like Bemidji, Metropolitan and Southwest cannot receive the lower rates negotiated by the larger universities. Some universities, such as St. Cloud, do not allow credit card payment of tuition or room and board. Other universities only allow credit card charges at the bookstore or other campus stores. Table 3-3 shows the wide range of credit card rates charged by the credit card companies.

Table 3-3
State University System
Credit Card Rates

<u>University</u>	<u>VISA Rate</u>	<u>Master Card Rate</u>
Bemidji	2.50%	2.50%
Mankato	1.74%	1.74%
Metropolitan	2.04%	2.04%
Moorhead	2.00%	2.00%
St. Cloud	1.47%	1.74%
Winona	1.80%	1.80%
Southwest	4.35%	4.05%

Source: State university credit card records, agreements, and discussions with university staff.

Universities assess no credit card fee to the student and this cost must be absorbed against the revenue collected. Since the credit card fees reduce revenues collected, universities need to negotiate the lowest credit card rate possible. This requires universities to coordinate credit card services between them.

Recommendation

- *The State University System should consider negotiating a system wide credit card contract in order to reduce the credit card fee rates for certain campuses.*

State University System

14. Mankato State University does not receive documentation supporting the amount of credit card fees posted to its account.

Mankato State University incurred \$38,878 in credit card fees from November, 1993 through March, 1995. These fees were assessed and charged against its bank account. However, the university did not always receive detailed documentation supporting the amount of the credit card fees. Without this evidence, credit card fees could be assessed at the wrong rate or for an inaccurate amount of charge sales without being detected by university staff. The university should obtain evidence supporting the charges posted to its accounts and verify that the amount of credit card fees are reasonable. Mankato State University estimates that approximately four percent of revenues was collected in the form of charge sales.

University staff indicated that the bank and credit card company do not consistently provide documentation supporting credit card fees. The university felt these amounts are being tested for reasonableness when charges are allocated back to the fund or department involved. A portion of these fees were charged back to the activity or auxiliary accounts, which are funded from pooled interest earnings of the bank account. In effect, this reduces the amount of interest funds available for scholarships and other student activities. Credit card fees for tuition are charged to the State Treasury.

Recommendation

- *The Mankato State University business office should verify the reasonableness of credit card fees posted against its bank account. Documentation supporting the calculation of credit card fees should be requested when the bank or credit card company fails to provide them to the university.*

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Chapter 4. Imprest Cash and Change Funds

Chapter Conclusions

Three universities maintain reasonable imprest cash levels, however, four universities exceed levels authorized by the Department of Finance. Three universities hold additional cash to provide check cashing services for students. Universities effectively safeguard cash on premises, but Moorhead and Metropolitan State Universities do not monitor and control change funds issued to staff. St. Cloud cash custodians hinder control by commingling return of change funds with the revenue being deposited. Some universities do not independently count change funds held by custodian or require that they be turned in and reissued the next school year. Weaknesses were observed in the cash operations of the bookstore and post office at Moorhead State University. We also noted concerns with travel advances paid from the Bemidji State University imprest checking account and negative balances in the Mankato State University account.

State universities hold imprest cash monies in the form of cash and checking. Cash funds provide change for daily cash transactions, including collections for tuition, room and board, books, food, and university events. Checking accounts are used to issue tuition refunds to students, make minor disbursements and emergency travel advances, and to issue payroll to employees whose payroll warrant was not received through the statewide payroll system. The checking account is periodically replenished to its authorized level from the appropriate funding source.

Imprest cash needs are funded from both the state treasury and non state activity funds. By statutory authority, the Minnesota Department of Finance authorizes the issuance of imprest cash funds against the appropriations of the universities. It also authorizes non state cash levels which are funded from the local non state bank accounts at each campus. Universities encounter peak periods when greater amounts are needed in cash and checking, generally prior to and during the beginning of an academic quarter. The Department of Finance provides flexibility for this by approving temporary increased levels of imprest cash and checking funds. Temporary needs can cause the imprest cash levels at each university to more than double. Once peak periods have ended, universities are to return to the permanent level of imprest cash.

State University System

Table 4-1 summarizes the permanent and temporary imprest cash levels that have been authorized by the Department of Finance as of March 31, 1995.

Table 4-1
Summary of Authorized Imprest Cash Balances
As of March 31, 1995

<u>University</u>	<u>Permanent Funds</u>	<u>Temporary Funds</u>	<u>Total Imprest Cash Authorized</u>
Bemidji State	\$ 30,000	\$ 20,000	\$ 50,000
Mankato State	55,000	80,000	135,000
Moorhead State	23,000	20,000	43,000
St. Cloud State	45,000	60,000	105,000
Winona State	35,000	65,000	100,000
Southwest State	25,000	10,000	35,000
Metropolitan State	18,000	0	18,000
Chancellor's Office	15,000	15,000	30,000
Total	<u>\$246,000</u>	<u>\$270,000</u>	<u>\$516,000</u>

Source: State University Systems Authorized Imprest Cash Balance Schedule.

University management realize the risks associated with having cash on the campuses. Cash is susceptible to burglary or theft. As a result, additional controls are necessary to safeguard and ensure accountability of cash. In addition, change funds kept on campus do not earn interest and must be kept to a minimum. We designed our audit to review the following objectives:

- Are imprest cash checking and change funds maintained at reasonable levels?
- Do universities sufficiently control cash and change funds issued to employees?
- Do universities properly use and replenish imprest checking accounts?

In particular, we reviewed university internal controls for accountability and safeguarding of cash. To accomplish this we met with cash custodians, reviewed university records to identify authorized and actual cash levels and observed evidence of established cash controls. In addition, we analyzed imprest checking account bank statements, reconciliations and the replenishment processes.

Imprest Cash Authorized Levels

The imprest cash levels authorized by the Department of Finance provide a basis for evaluating the reasonableness of actual cash held at university campuses. This authorization includes both imprest checking and change funds. As shown in Table 4-1, the Department of Finance has authorized a total imprest cash amount of \$516,000.

The commissioner of the Department of Finance authorizes imprest cash levels in accordance with Minnesota Statute 15.191. The statute addresses issuing imprest cash against state appropriations. However, the statute does not directly discuss issuance of imprest cash from non state funds, which are common in state universities. Despite this, officials from both the

State University System

Department of Finance and Chancellor's Office indicate that non state change funds are subject to this authorization. Our tests found that cash actually held in four universities exceed the levels authorized by Department of Finance, as discussed in the following finding.

15. Four universities exceed imprest cash levels authorized by Department of Finance.

Bemidji, Metropolitan, Moorhead and Southwest State Universities have greater imprest cash levels than authorized by the Department of Finance. This reveals that the Department of Finance, as well as university management, do not effectively limit and control actual cash levels held in the university facilities. These universities create a vulnerable environment for its employees and students by holding more cash on premises than management is aware of. The Department of Finance and university management may desire greater protection and security due to the additional risks of higher cash levels on campus.

Three of seven universities attempt to minimize the level of actual cash on hand. However, four universities hold imprest cash and change fund levels which exceed their authorized amount:

- Southwest State University, which has an authorized level of \$35,000, periodically increases its change fund by \$90,000 to \$125,000. The university uses the additional cash to provide change to students after payment of tuition, room and board, and other university charges from the student financial aid checks.
- Bemidji State University has an authorized level of \$50,000, however, had issued over \$110,000 in change funds, outstanding travel advances and unreplenished disbursements as of March 31, 1995.
- Moorhead State University, which has an authorized level of \$43,000, has change funds totaling \$26,580 in addition to its imprest checking account level established at \$21,116. As a result the university exceeds its authorized imprest cash level by \$4,696.
- Metropolitan State University has an authorized level of \$18,000 which it maintains entirely in its imprest checking account. However, we found an additional \$200 was issued to the university cashier and another \$100 to the president's office which was spent but never replenished.

Generally universities exceeded their authorized limits using cash from non state sources, such as student activity fees or bookstore earnings. They did not request formal approval from university management nor the Department of Finance. Approval to increase the authorized level would be not necessary if the university issued change funds from its imprest checking account. This would shift monies between checking and change funds, causing the authorized level to remain unchanged.

Recommendation

- *Universities need to maintain and control imprest cash checking and change funds within their authorized levels. If additional funds are needed, universities should obtain Department of Finance approval to increase its authorized level.*

State University System

Cash and Change Funds

State universities collect tuition and sell goods and services on campuses. Because cash transactions take place, change funds need to exist. Our audit revealed that universities hold over \$105,000, in total, for use as change. However, these levels can sometimes reach as high as \$275,000 during peak periods. Universities have change funds in the cashier's office, residence halls, student unions, recreation centers, and at student events for ticket sales and concessions. In addition, two universities that operate their own bookstores also have change funds. As noted in finding 16, certain universities have established change funds to provide check cashing services for their students.

Because universities hold substantial amounts of actual cash and change, they need strong accountability and safeguard controls. Universities need an accurate record of change funds issued to employees and ultimately returned by these employees. While change funds are held by employees, a periodic verification ensures that the cash exists at the recorded level.

Generally, we found that universities had sufficient safeguard controls over change funds issued. Universities have safes or vaults, and limit access to essential employees. Security alarms were also used to protect cash areas. Two universities have installed alarms which alert the local police department. We noted that some universities take precautions by contracting armored security services to make bank deposits.

We noted several weaknesses in accountability over change funds. Moorhead and Metropolitan State Universities do not track and control some change funds issued to employees. Athletic department staff of St. Cloud State University do not inform the business office when depositing return of change funds. We also found that five universities do not periodically verify the existence of all change funds, or require them to be turned in and reissued the next school year. Accounting for cash overages and shortages at some universities is not effective because they are netted against revenue deposited and not accumulated in a separate account. Finally, weaknesses were noted in cash operations of the bookstore and post office at Moorhead State University.

16. Certain universities provide check cashing services for students.

We found that three of seven state universities allow students to cash personal checks on campus. The universities at Bemidji, Southwest, and Winona generally provide personal and student payroll check cashing services in their student unions or cashier areas. Southwest State University also allows employees to cash checks up to \$25. Cashing student payroll checks pose little risk since the university generated the check, however, personal checks are primarily susceptible to risk of nonsufficient funds (NSF) and may not clear the bank. While check cashing does provide convenience for students, it also increases the risk of holding larger amounts of cash than would otherwise be necessary. University staff or an armored car service must transport cash to and from the facility. Some universities have installed alarms in the cashier areas to contact law enforcement offices in the event of a robbery. Because of the added risks of controlling and safeguarding the additional cash, we suggest that university officials review their check cashing policies in an attempt to reduce cash levels.

State University System

Bemidji and Southwest State Universities cash payroll checks for student employees. Cashing payroll checks pose no NSF risk since the payroll checks are written and issued by the universities. However, the practice of cashing payroll checks requires higher cash levels and increases need for safeguarding controls. Bemidji and Southwest State Universities increase their change funds as much as \$30,000 and \$7,000, respectively, for payroll days. The additional cash requires more administrative time, better security, and results in lost interest.

Allowing personal check cashing at universities is convenient for students and employees. However, universities must deal with personal checks that are returned for nonsufficient funds (NSF) by the bank. The universities must recover the monies or write-off NSF checks. The universities must also track students who have written NSF checks to avoid cashing further checks. We observed the following personal check cashing policies:

- Bemidji State University cashes student checks for up to \$100. One student wrote bad checks totaling \$700 which has not been recovered.
- Winona State University cashes student checks up to \$15. The university will cash checks from parents for up to \$100.
- Southwest State University cashes student checks up to \$15. The university also cashes employee personal checks up to \$25.

Universities that allow students to cash personal checks are susceptible to additional risks and costs. Universities spend time preventing, monitoring, and pursuing NSF checks and lose money when checks are returned uncollectible. Despite set check cashing limits, ranging between \$15 and \$100, a check may take several days or even a week before the bank notifies the university of a NSF check. Bemidji State University for example, which has set a limit of \$100, has an effective process to monitor students with NSF checks. However, one student was able to cash \$700 in NSF checks. The student is no longer in school and recovery is unlikely. Because of the additional risks and costs associated with cashing checks, university management needs to weigh the cost of providing this service against the benefit it provides the students.

Recommendation

- *University management should reevaluate the costs, benefits, and risks of providing check cashing services for students.*

17. Moorhead and Metropolitan State Universities do not adequately monitor and control all change funds that exist on campus.

Moorhead and Metropolitan State Universities do not centrally monitor and track all change funds issued to staff. The universities have issued change funds from the state treasury, as well as student activity, bookstore, student union, resident hall, and other non state funds. However, the university business offices have no record controlling the change fund issued to several non state accounts. Without an adequate record of the change funds issued, cash custodians cannot be held accountable.

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Moorhead State University had several non state change funds that the business office was not aware of. For example, no business office record existed for cash placed in five change machines located in the residence halls, each machine held approximately \$250 each. Several other cash funds, totaling \$18,947, were issued to staff in the bookstore, theater, student union, and post office. In many instances, these change funds were created as expenditures from an account and not reflected as an asset. Cash funds are assets. University employees are the custodians of those funds which are returned at a future date. The business office is the best place to control cash funds issued, independent of the cash custodian. Without an independent record of the change funds issued, the university is unable to assure that the change funds will be returned by the custodian of the fund.

Metropolitan State University lacks a record of change funds issued. We were informed that the university held \$250 in the cashier's office and \$100 in petty cash at the president's office. We determined that the cashier actually held \$200 and could not find evidence that \$50 was returned. The president's office only had \$1.59 of the \$100 on hand. The funds were issued in 1994 and were never replenished back to the \$100 level. Some confusion exists on whether the \$100 was issued to be spent or held at the \$100 cash level. University control over change funds issued to employees must improve as operations are expected to grow over the next several years.

Recommendation

- *Moorhead and Metropolitan State University business offices should record and control all change funds issued to university staff.*

18. St. Cloud State University cash custodians alter change fund levels.

The St. Cloud State University business office has difficulty controlling and monitoring its change funds. Cash custodians, primarily in the athletic department, adjust change fund levels without notifying the business office. The cash custodians increase change fund levels by retaining revenue that should have been deposited. They also return a portion of the change funds with revenue collections being deposited without notifying the business office. This practice causes the business office to not properly increase or reduce the amount of recorded cash issued to these custodians. Any change fund shortages can be concealed as part of a revenue deposit. Combining return of change funds with other collections also weakens control over the deposit of revenues. As a result, cash custodians may be able to conceal change fund or revenue shortages without detection by university management. We did not identify any such shortages during our audit.

The university business office performs independent periodic counts of change funds issued. On November 10, 1994, staff detected a \$700 shortage which, through subsequent investigation, was found to have been returned several years ago. However, this also reveals that excess revenues of \$700 was not detected by deposit controls. For example, ticket revenues should agree with the number of tickets sold multiplied by the ticket price. Ideal controls over revenues should detect overages on commingled deposits when the change funds were returned.

The business office also found additional cash of \$1,300 on hand in the athletic concessions and ticket change funds. Department staff increased their authorized change funds at these locations by withholding a portion of revenues from the deposit. As a result, staff created excessive

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unauthorized change fund levels. If the university had properly accounted for and reconciled revenues to cash collections, a deposit shortage should have been noted. However, the shortages were not noted until the additional unauthorized change fund levels were subsequently detected. To achieve better accountability, St. Cloud State University needs to direct staff to separately account for change funds and revenue.

Recommendation

- *St. Cloud State University cash custodians should not be allowed to alter authorized change fund levels. Cash custodians should provide the business office with a separate accounting for change funds returned and revenue collections to be deposited.*

19. Some universities do not adequately count or verify cash change funds.

Some state universities do not periodically perform cash counts, independent of the cash custodians. While university staff indicate this is an important control, only St. Cloud and Winona State Universities actually conduct them. Bemidji and Moorhead State Universities have developed an effective alternative requiring that certain funds be turned in annually. However, not all funds are being turned in or independently counted. Mankato State University confirms cash issued with the custodian, however, this does not ensure that the cash actually exists. Independent cash counts or an effective alternative are necessary to ensure that funds exist at the authorized level.

Bemidji and Moorhead State Universities, verify cash by requiring that certain change funds be returned during summer months and re-issued at the beginning of fall quarter. This is a valid alternative, however, not all change funds are turned in. The universities do not independently verify other change funds which are not returned annually. Bemidji State University does not periodically count and inspect the cashier's change fund and student union check cashing fund. Moorhead State University also does not verify numerous change funds out in its departments. As reported in finding 17, we determined that numerous change funds existed at Moorhead State University which were not recorded by the business office. However, we did not discover any shortages of cash. To achieve better controls over cash, the universities should perform independent verification of all change funds issued.

Mankato State University has not performed an actual count of change funds for over three years. In July, 1993, as an alternative to inspecting the cash, the university sent internal memos to the cash custodians confirming the amount of the change funds on hand. The business office indicated the amount of cash issued to them, as recorded on the accounting system, and asked staff if it was accurate. While this process has value in communicating the balances issued to the custodian of the fund, it does not provide sufficient verification that the cash actually exists.

Southwest State University has not performed surprise counts of cash since February, 1992. Periodic cash counts are an effective management control to identify missing or short cash. Verification of the existence of cash at various locations should be performed at least annually. When universities verify cash amounts, they are able to determine if change funds exist and are at the authorized levels. Through surprise counts, St. Cloud State discovered that some change fund

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custodians had inappropriately increased their change fund levels by keeping a portion of revenues collected. Management was then able to take corrective action to record and control the additional change funds held.

Recommendation

- *Universities should perform independent surprise counts of change funds, or require change funds to be returned to the business office on an annual basis.*

20. Universities do not properly account for cash shortages and overages.

Universities have established cash overage and shortage accounts within their respective imprest cash funds as required by Minn. Stat. Chapter 136.56. However, universities, for the most part, only track cash shortages and overages related to transactions occurring at the cashier's office. Universities are neglecting to account for cash shortages and overages that occur in other revenue producing areas, such as athletic ticket sales or student union activities. Rather, universities deposit daily receipts net of cash shortages and overages. This practice does not provide management with the ability to identify and accumulate cash shortages and overages caused by discrepancies in these areas. By adjusting daily deposits net of short and over, the accounting systems do not reflect true financial activity. Further, in the absence of other controls, excessive shortages could be hidden within actual revenues and go undetected.

Cash shortages and overages that we observed, were immaterial in size. However, we were unable to determine the full extent of all cash shortages and overages. Also, cash shortages and overages related to ticket sales, and other areas, were not included in the short and over account. Despite the fact that cash shortages and overages tend to be small, it is important that management monitor all cash differences.

Recommendation

- *Universities should accumulate all cash differences in a cash short and over account within each university's imprest cash fund and management should review these differences.*

21. Moorhead State University's bookstore does not reconcile cash counts to register totals, or make deposits on a daily basis.

Moorhead State University's bookstore does not close out and balance its cash registers on a daily basis. As a result, the university is not making the required daily deposits. We noted a significant number of days in which the cash registers were not closed out, and the cash was not deposited, even though daily collections exceed \$250. Without daily close-out, bookstore management may not be able to detect a cash shortage timely. Also, if cashiers change registers frequently, management may not be able to determine which cashier may have caused the shortage. The lack of daily deposit increases the amount of loss in the event of a theft or burglary since greater amounts are retained on premises until deposited.

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Reconciling cash to sales is a critical control to ensure that sales have been accurately collected. By counting cash and reconciling it to sales records, management can determine if cash overages or shortages exist. Because the university does not close out cash on a daily basis, differences cannot be directly linked to a particular cashier if they change registers frequently. Further, because the bookstore is receiving more than \$250 and not making daily deposits, it faces a risk of larger losses in the event of theft or burglary.

Recommendation

- *Moorhead State University bookstore needs to reconcile sales to cash collected on a daily basis, or when daily receipts exceed \$250.*

22. Moorhead State University needs to improve control over post office operations.

The post office at Moorhead State University does not maintain sufficient control over cash received and postage used. We found no authorized level of cash and stamps that the university had issued to the post office. The post office operations clerk believes the authorized level should be \$4,500. We found no control over cash, postage inventory and receivables due from university departments and students. Cash collected is kept in the post office safe and is not deposited with the business office until needed for additional postage.

The post office does not control postage meter, stamps, receivables, and change fund balances. We noted that daily totals changed as a result of stamp sales errors and change fund fluctuations, and are not actual cash differences. The post office buys and sells stamps and maintains a prepaid postage meter. It bills and collects postage used by university departments and postage due from students. To control such an operation requires a reconciliation of cash and postage inventory to an authorized level, with deposit of current revenue. Periodically the university should compare postage revenue to cash collections, along with the change in postage inventory and receivables, to identify any overages or shortages. This allows the total cash and stamp level to remain fixed and postage revenue to be controlled. Without these controls, employee errors or irregularities in handling cash or stamps cannot be detected.

Recommendation

- *Moorhead State University needs to improve controls over postal operations by:*
 - *establishing an authorized level of cash and stamps held by the post office;*
 - *depositing cash received from postage into an account which is then used to acquire additional postage or stamps; and*
 - *periodically reconciling post office cash and stamp inventory to the authorized level.*

Imprest Checking Funds

As mentioned previously, imprest cash funds are also deposited into local checking accounts for miscellaneous expenditures and student tuition refunds, as authorized in Minn. Stat. 15.191 and 136.11. Using a local checking account provides a quicker, easier mechanism for preparing and

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issuing a check than through the statewide accounting (SWA) system. Table 4-2 summarizes, by university, imprest cash checking account levels maintained locally.

Table 4-2
Imprest Cash Checking Levels
As of March 31, 1995

<u>University</u>	<u>Funds Available</u>
Bemidji State	\$ 24,840
Mankato State	45,223
Moorhead State	21,116
St. Cloud State	34,500
Winona State	15,930
Southwest State	19,403
Metropolitan State	18,000
Chancellor's Office	15,000
Total	\$194,012

Note: Some of the imprest cash checking accounts are commingled and not in a separate checking account.

Source: University imprest cash checking records.

After issuing an imprest cash payment, the universities request reimbursement from the state treasury or appropriate non state fund. This causes checking account balances to be replenished back to an established level. Actual balances will vary according to the amount of change funds issued, check clearing patterns, and the timing of the reimbursements. Imprest cash policies indicate that universities should reimburse its funds monthly, or more often if necessary, to maintain the account at an adequate minimum level.

Our review in this section focuses on the uses and replenishment over the imprest checking funds. We reviewed the general uses of imprest cash checking accounts to determine if universities complied with the intended uses. We noted that universities mainly use imprest cash to refund students for tuition, fees, room and board and other related refunds. However, we observed that Bemidji State University uses its imprest checking account excessively for travel advances, as discussed in finding 23.

We also reviewed universities procedures related to replenishing imprest cash funds. Generally, imprest cash funds are reimbursed for tuition refunds from the university's state treasury account into which the original tuition was deposited. For the most part, universities are conducting replenishments fairly timely, with the exception of Mankato State University, as discussed in finding 24. Mankato State University does not reimburse its imprest cash account often enough, resulting in a large negative account balance.

23. Bemidji State University provides substantial travel advances from its imprest cash account.

Bemidji State University uses its local imprest cash checking account to provide employees with travel advances. The advances have depleted funds available for other purposes and at times have caused a negative account balance. The university needs to limit the number and size of travel

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advances being funded from imprest cash. University employees take advantage of the university by receiving both an imprest cash travel advance and full travel reimbursement through the state treasury. This requires the university to seek subsequent recovery for the travel advance from the employee. We found that travel advances are not being settled in a timely manner by employees and it appears unlikely that certain advances will be recovered without legal action.

We found that the university issued more travel advances out of the imprest cash account than it had funds available. As of April 30, 1995, the university had a negative imprest cash balance of \$27,834 which included unsettled travel advances of \$43,290. The authorized level of the imprest cash fund is only \$30,000. Essentially the negative imprest cash balance, which is part of a commingled non state bank account, used other non state account monies to fund the university travel advances. This adversely effects interest earnings distributed to those accounts and puts those accounts at risk of loss as well.

It is a normal practice for Bemidji State University to issue travel advances to employees from imprest cash funds rather than issue travel reimbursements through the SWA system. Most state agencies issue travel advances and reimbursements through the Department of Finance and the SWA system. The SWA system requires the advance to be offset against the final travel settlement amount. The university's practice enables employees to receive both an imprest cash check for the travel advance, as well as full travel reimbursement from the state treasury. Once the reimbursement check is received the employee is supposed to repay the imprest cash fund for the advance. Many of these advances have not been settled in a timely manner and some are several years old. Nine travel advances totaling \$2,885 that were issued in 1994 remain unsettled. Also three advances totaling \$472 that were issued back in 1993 and have not been resolved.

In February 1995, the university amended its travel advance policy in an effort to limit travel advances from imprest cash to amounts less than \$500. However, we observed that the university business office still issued twelve travel advances for \$500 or more, totaling \$10,860, from imprest cash after February. University staff indicate they made these imprest cash payments because the employee or faculty member had not submitted a timely request to allow them to process the advance through the SWA system.

Recommendations

- *Bemidji State University should process travel advances, including conference registration fees, through the SWA system. The university should limit the number and size of travel advances funded through the imprest cash fund to unusual situations or special circumstances.*
- *University employees should be required to settle imprest cash travel advances timely. The university should investigate and resolve old unsettled travel advances.*

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24. The Mankato State University imprest cash account frequently has a large negative balance.

The Mankato State University imprest cash account runs negative causing it to borrow from other accounts in the commingled fund. The university reimburses the imprest cash account an average of once per month. However, its cash needs require more frequent and timely reimbursements to avoid a negative balance. The university's policy is to reimburse the imprest cash fund immediately after it processes each student refund batch. However, we observed that certain monthly reimbursement requests included four student refund batches and some were for refunds paid over four weeks prior to the request.

The university did not utilize an additional \$80,000 authorized for temporary use at anytime throughout the year. Instead it allows the account to run negative until the reimbursement is received. Department of Finance imprest cash policies state that an agency should reimburse its imprest cash fund monthly, or more frequently if necessary, to maintain an adequate minimum balance. Without timely reimbursements, or requesting additional temporary cash, a negative balance in the imprest cash account is inevitable. For example, on February 1, 1995, the university requested a reimbursement which included five tuition refund batch payments from the month of January totaling over \$70,000. One batch, dated January 17, 1995, was for \$49,800. The university has only \$45,000 available in the imprest account for issuing refunds, resulting in a negative balance of approximately \$25,000. The university is authorized to draw up to an additional \$80,000 of imprest cash for temporary use. However, it did not request or obtain any additional temporary cash.

Recommendation

- *Mankato State University should request imprest cash reimbursements more frequently, or temporarily increase its imprest cash level, to avoid negative account balances.*



Minnesota State Colleges and Universities

Community Colleges • State Universities • Technical Colleges

October 24, 1995

Mr. James Nobles
Legislative Auditor
100 Centennial Office Building
St. Paul, MN 55117

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations in the audit report. The Minnesota State Colleges and Universities believe the audit is a valuable review of our operations. We appreciate the professional manner in which your staff conducted the audit.

Following is our response to the individual findings.

1. Universities have not established cash management and investment strategies.

Bemidji State, Mankato State, and the System Office earn a rate on their checking account that is compatible with authorized short-term investments. Therefore, they believe that the amount of money in the checking accounts is reasonable. The institutions do agree with the intent of the finding and will develop a plan addressing investment opportunities.

2. Cash management policies for the Revenue Fund have not been developed.

We agree with the finding. The System Office will develop procedures for depositing cash and transferring operating funds to the campuses.

3. Mankato State University invests in a high risk fund called "The Common Fund" which acquires unauthorized investments.

Mankato State will immediately liquidate its shares of The Common Fund. The university earned its highest rate of return in this fund and will work with the Chancellor's to seek a legislative change allowing this investment.

4. Two universities continually reinvest in bank Certificates of Deposit (CDs).

As part of its investment strategy, Bemidji State will review long-term investments when determining the best securities to purchases.

St. Cloud State makes every attempt to maximize return within the state imposed restrictions on allowable types of investments. A short-term investment pattern was developed when interest rates were low and beginning to climb. With the change in interest rate behavior patterns, the investment strategies have been reviewed and adjusted to fit the current patterns.

5. Universities have not adequately documented approval for investment purchases and separated incompatible investment responsibilities.

Each university has reviewed its procedures for approving and documenting investment purchases. Where necessary, universities have changed procedures to separate purchasing and authorization of investments and document the authorization.

6. Two universities did not reconcile accounting records to local bank accounts timely.

Bemidji State and Mankato State have begun reconciling bank accounts monthly.

7. University account balances are allowed to go negative.

Universities that have negative balances will consider charging interest to those accounts.

8. Universities do not distribute all interest back to local activity accounts.

The current practices of the universities comply with all state laws by crediting interest to the fund making the investment. Interest income is part of the total auxiliary fund revenues. Although practices vary between universities, we feel that they should determine the most appropriate use for this revenue. State law requires that these funds maintain a positive fund balance but allows presidents considerable flexibility for determining the appropriate use for the funds. As part of that decision, they may use the interest money for administrative costs or other expenses that are in the best interests of the university.

9. St. Cloud State University uses a portion of pooled interest earnings to finance vehicle leases.

The university agrees that interest should be equitably distributed. To accomplish that, the University shares interest earnings with accounts as an alternative to charging an overhead rate for administrative expense. This practice has the advantage of minimizing the cost of calculating administrative charges for small accounts. While the university is willing to change this practice, we believe it would be a disservice to the accounts and result in a loss to the programs they support.

10. Three universities had an excessive number of local bank accounts.

11. Certain universities have not bid bank services for several years.

The following response is to both findings 10 and 11 regarding banking services.

Bemidji State has consolidated the State Treasurer deposit account and its local bank account. The university also plans to reduce the number of Revenue Fund bank accounts. They will bid banking services in the summer of 1996.

Metropolitan State will periodically rebid and re-evaluate all banking services.

St. Cloud State will conduct a cost comparison for services provided by the bank free of charge and the interest waived.

Southwest State has begun the process of bidding banking services. However, they believe that is easier to reconcile by having a separate bank account for state depositories.

Winona State is reviewing the number of bank accounts needed for efficient operations.

12. Bemidji, Metropolitan, and Moorhead State Universities have insufficient bank collateral pledged to their accounts.

Bemidji State will obtain sufficient collateral and meet with its bank to develop a process for maintaining adequate collateral.

Moorhead State has obtained the necessary collateral.

Metropolitan State will monitor the bank balance daily and move funds as necessary to ensure that all money is invested in collateralized funds or the bank balance is below the FDIC insurance level.

13. The State University System has widely varying credit card rates.

The universities will work the Minnesota State Colleges and Universities System Office to determine the feasibility of a consolidated credit card agreement.

14. Mankato State University does not receive documentation supporting the amount of credit card fees posted to its account.

Mankato State has reviewed credit card charges for reasonableness. The university will obtain more documentation from the credit card company to verify the propriety of the charges.

15. Four universities exceed imprest cash levels authorized by Department of Finance.

The System Office will work with the Department of Finance to determine necessary approval for auxiliary change funds. Universities will ensure that they obtain necessary approvals.

16. Certain universities provide check cashing services for students.

Universities believe that cashing checks is a valuable service for students. However, they will consider placing a maximum limit on the amount of the check.

17. Moorhead and Metropolitan State Universities do not adequately monitor and control all change funds that exist on campus.

Moorhead and Metropolitan State will monitor, record, and control all change funds issued to the staff.

18. St. Cloud State University cash custodians alter change fund levels.

All personnel responsible for change funds have been instructed as to the necessary steps for increasing change funds. The finding pertained to the athletics area which has many weekend events. This becomes a planning area which has been addressed. The university will take the necessary steps to prevent this activity in the future.

The facts surrounding the \$700 shortage are in error. This was an advance for International Student Orientation which took place in the fall of 1994. The advance was to be reconciled and returned to the business manager upon completion of the event. Because of the lack of sufficient codes to properly record an advance of this type in the accounting system, a starting cash fund code was used. Hopefully, the new MnSCU accounting system will allow for proper recording of this type of transaction.

19. Some universities do not adequately count or verify some change funds.

State Universities will include all change funds in their imprest cash account and initiate surprise audits. The universities will then reconcile the audited amount to the authorized amount.

20. Universities do not properly account for cash shortages and overages.

The Minnesota State Colleges and Universities have added a code for cash shortages and overages in their accounting system. Universities will use this code to record this activity.

21. Moorhead State University's bookstore does not reconcile cash counts to register totals or make deposits on a daily basis.

Moorhead State agrees with this recommendation and will perform daily reconciliation for the bookstore.

22. Moorhead State University needs to improve control over post office operations.

Moorhead State has implemented this recommendation.

23. Bemidji State University provides substantial travel advances from its imprest cash account.

Bemidji State will use the new state system for travel advances. All outstanding advances to former employees have been turned over to a collection agency.

Mr. James Nobles
October 24, 1995
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24. The Mankato State University imprest cash account frequently has a large negative balance.

The imprest cash account will be reimbursed weekly. At the beginning of each quarter, the university will obtain authorization to temporarily increase the amount for student refunds.

Sincerely,



Judith Eaton
Chancellor