

Metropolitan State University

Financial Audit

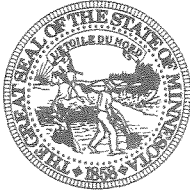
For the Period July 1, 1995, through December 31, 1996

May 1997

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

97-26



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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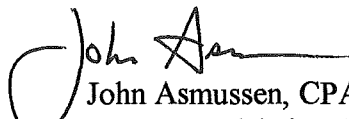
Dr. Susan Cole, President
Metropolitan State University

We have audited selected areas of Metropolitan State University for the period July 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, supplies and equipment, rent, private grants, and the computer store. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 1997. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Metropolitan State University complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the university is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Metropolitan State University, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 9, 1997.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 7, 1997

Report Signed On: May 2, 1997

SUMMARY

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Metropolitan State University

Financial Audit

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No. 97-26

Background Information

Metropolitan State University is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when state universities, community colleges, and technical colleges throughout the state merged. Metropolitan State University, which was founded in 1971, is a four year university serving the metropolitan area. Metropolitan State University has campuses in both St. Paul and Minneapolis. Dr. Susan Cole is the president of Metropolitan State University.

Conclusions

Metropolitan State University initially had great difficulty recording its State Treasury and local account financial activities on the MnSCU or MAPS accounting systems. However, by February 1996, the university was recording most of its financial activities on the MnSCU accounting system completely, except for student financial aid. MSU only recorded student financial aid transactions as summary data on MnSCU accounting in May and December 1996. Also as of December 31, 1996, Metropolitan State University had not reconciled MnSCU accounting to MAPS for either its State Treasury or local account financial activities. In addition, the university had not reconciled MnSCU accounting to its local bank account since June 30, 1996. MSU also did not maintain sufficient collateral for its local bank account.

The university did not design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. We found several weaknesses in the internal control structure over tuition receipts. The university did not adequately segregate cashier and registration duties. It also did not verify the accuracy of tuition revenue or adequately pursue collection of accounts receivable.

Generally, we found that the university designed internal controls that were reasonable in providing assurance that Federal Student Financial Aid disbursements were in compliance with applicable laws and regulations. In addition, we found that the university has an effective process for packaging, awarding, and disbursing Pell grants. However, we noted some small overpayments and areas where the university could improve internal controls.

Metropolitan State University complied with the relevant provisions of the bargaining unit agreements relating to employee pay rates and leave accruals. The university also properly processed and recorded payments for rent, supplies, and equipment.

Metropolitan State University did not measure the financial results of its computer store. Furthermore, it had inadequate controls over computer store sales and inventory.

We found that the university had designed and implemented internal controls to provide reasonable assurance that private grants were collected, adequately safeguarded, and accurately reported in the accounting records. In addition, we found that Metropolitan State University expended its private grants in compliance with the provisions of the grant.

Metropolitan State University

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Financial Management	3
Chapter 3. Tuition Revenue	7
Chapter 4. Federal Student Financial Aid	11
Chapter 5. Payroll and Administrative Expenditures	15
Chapter 6. Computer Store	19
Chapter 7 Private Grants	23
Agency Response	25

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

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Exit Conference

The following staff from Metropolitan State University and the MnSCU system office participated in the exit conference held on April 18, 1997:

MnSCU System Office:

Laura King	Vice Chancellor
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Metropolitan State University:

Susan Cole	President
Gordon Scott	Vice President
Kris Henel	Business Manager
Jim Cleaveland	Director, Financial Aid

Metropolitan State University

Chapter 1. Introduction

Metropolitan State University (MSU) is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when state universities, community colleges, and technical colleges throughout the state merged. Metropolitan State University, which was founded in 1971, is a four year university serving the metropolitan area. Metropolitan State University has campuses in both St. Paul and Minneapolis. Dr. Susan Cole is the president of Metropolitan State University.

Metropolitan State University funds its operations from three major sources: state appropriations allocated by the system office, tuition receipts, and federal revenue. Table 1-1 shows a breakdown of MSU's revenues and expenditures for fiscal year 1996.

Table 1-1
Metropolitan State University
Summary of Financial Activity- Fiscal Year 1996

	<u>Amount</u>
Revenues:	
State Appropriation	\$14,492,391
Tuition	6,572,097
Student Financial Aid	1,620,065
Computer Store	613,019
Private Grants	400,673
Other Sources	<u>1,924,612</u>
Total	<u>\$25,622,857</u>
Expenditures:	
Payroll	\$15,177,888
Rent	1,724,551
Financial Aid and Scholarships	1,487,209
Supplies and Equipment	1,023,939
Computer Store	556,311
Other	<u>3,641,837</u>
Total	<u>\$23,611,735</u>

Source: MnSCU accounting records.

Metropolitan State University is accredited by the North Central Association of Colleges and Schools to offer baccalaureate and masters degrees. It offers complete majors in dozens of areas and offers three graduate programs. According to university records, the total enrollment for fiscal year 1996 was 8,267 students. Approximately 77 percent of the students attend part-time, and 23 percent are full-time. In addition, students range in age from 18 to 70, with the median age of 35.

In addition to its main campuses in downtown Minneapolis and St. Paul's Dayton's Bluff area, the university offers programs at locations around the seven county metropolitan area, including educational sites in Bloomington, Brooklyn Center, downtown St. Paul, and at the Midway Center in St. Paul's Energy Park.

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Chapter 2. Financial Management

Chapter Conclusions

Metropolitan State University initially had great difficulty recording its State Treasury and local account financial activities on the MnSCU or MAPS accounting systems. However, by February 1996, the university was recording most of its financial activities on the MnSCU accounting system completely, except for student financial aid. MSU only recorded student financial aid transactions as summary data on MnSCU accounting in May and December 1996. Also, as of December 31, 1996, Metropolitan State University had not reconciled MnSCU accounting to MAPS for either its State Treasury or local account financial activities. In addition, the university had not reconciled MnSCU accounting to its local bank account since June 30, 1996. The university also did not maintain sufficient collateral for its local bank account.

On July 1, 1995, when MnSCU merged as a system, a new computerized accounting system, MnSCU accounting, also emerged. In addition, the State Colleges and Universities Personnel/Payroll System (SCUPPS) became operational as MnSCU's personnel and payroll system on July 1, 1995. The new accounting system and SCUPPS were part of MnSCU's financial management systems utilized to operate and administer MnSCU's financial activities. All campuses are required to utilize MnSCU accounting to account for all of their financial activities, including State Treasury accounts and local activity accounts maintained outside the State Treasury.

The state of Minnesota also implemented a new computerized accounting system and a new personnel/payroll system that began operations on July 1, 1995. The state developed accounting system was called the Minnesota Accounting and Procurement System or (MAPS). The personnel/payroll system is referred to as the State Employee Management System or (SEMA4). The convergence of all of these new systems have had an impact on the accuracy and reliability of the financial information at MnSCU and its campuses. Our report on Minnesota State Colleges and Universities System, Transition of Technical Colleges into State Government for the year ended June 30, 1996, identified many fundamental financial management problems (Report No. 96-35).

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Metropolitan State University and all universities and colleges based on an allocation formula. In addition, Metropolitan State University, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

Metropolitan State University

The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses use MnSCU accounting to initiate transactions which involve appropriated funds. Through a system interface, MnSCU accounting feeds these transactions to MAPS. MAPS then generates State Treasury warrants for state appropriated expenses.

MnSCU campuses also administer funds in local bank accounts, separate from the State Treasury. These funds include financial aid, agency accounts, and enterprise activities. Metropolitan State University's local bank account, maintained at Norwest Bank, also acts as the university's state depository and link to the State Treasury. Metropolitan State University deposited its receipts, including tuition, into its local bank account. All deposits that are not authorized to be outside the state treasury, such as tuition, are swept (transferred) to the State Treasury.

Audit Objectives and Methodology

Our review of Metropolitan State University's overall financial management focused on the following questions:

- Did Metropolitan State University properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Metropolitan State University properly account for and control its local bank accounts?

To answer these questions, we interviewed university personnel to gain an understanding of the MnSCU accounting system and the extent to which it was utilized for each of the individual program areas discussed in the following chapters. We also interviewed university personnel to gain an understanding of management controls in place over the local bank account and the tuition and fees, student financial aid, administrative expenditures, private grants, and computer store activities that would impact on MSU's ability to properly record its financial activities in MnSCU accounting and subsequently to the states accounting system (MAPS). To the extent possible, we reviewed MnSCU transactions posted to the accounting records to determine if MSU properly recorded revenue and expenditure transactions to MnSCU accounting for both State Treasury activities and its local activities. We also reviewed local bank account activity, such as cash and investments, to determine if the university complied with material finance-related legal provisions.

Conclusions

We found that Metropolitan State University initially had great difficulty recording its State Treasury or local account financial activities on MnSCU or MAPS accounting systems. However, by February 1996, the university was recording most of its financial activities on the MnSCU accounting system completely, except for student financial aid. MSU only recorded student financial aid transactions as summary data on MnSCU accounting in May and December 1996. Also, as of December 31, 1996, Metropolitan State University had not reconciled MnSCU accounting to MAPS for either its State Treasury or local account financial activities. In

Metropolitan State University

addition, the university had not reconciled MnSCU accounting to its local bank account since June 30, 1996. See Finding 1 below. The university also did not maintain sufficient collateral for its local bank account as further discussed in finding 2.

The transition of Metropolitan State University's financial activities onto the MnSCU accounting came in stages. Expenditure transactions for State Treasury activities were first posted to MnSCU accounting in September 1995. State Treasury revenue transactions (primarily tuition) were not posted to MnSCU accounting until February 1996. The university indicated that it encountered system interface problems between MnSCU accounting and MAPS that were not resolved until February 1996. As a result of Metropolitan State University's inability to convert quickly to the new MnSCU accounting system, tuition collected and deposited between July 1, 1995, and February 1, 1996, remained in the local account until after February 2, 1996. Consequently, deposits to the State Treasury were not timely as required by Minn. Stat. Section 16A.275. After this period, tuition was posted to MnSCU accounting and the State Treasurer's Office was able to sweep the local account.

1. Metropolitan State University did not verify the accuracy of financial activity recorded in either its local bank account or in the State Treasury.

As of December 31, 1996, Metropolitan State University had not reconciled MnSCU accounting to MAPS for either its State Treasury or local account financial activities. In addition, Metropolitan State University had not reconciled MnSCU accounting to its local bank account since June 30, 1996.

We reviewed the university's last reconciliation of cash and investments as recorded in MnSCU accounting to the local bank account as of June 30, 1996. Although the reconciliation was as of June 30, 1996, it included cash and investment activity prior to July 1, 1995. In reviewing the university's reconciliation worksheet, we noted several errors in its construction. Based on the reconciliation worksheet, the June 30, 1996, cash balance per MnSCU accounting was approximately \$100,000 less than cash in the bank. We were able to identify all but approximately \$900 in accounting errors. We reviewed accounting and bank records back to fiscal year 1992. We found errors in the accounting records prior to MnSCU accounting that affected beginning cash balances for prior years that were incorrectly carried forward onto MnSCU accounting. Also, during fiscal year 1996, a number of incorrect entries were made to MnSCU accounting requiring subsequent correcting entries. Reconciliations help to ensure that the accounting records accurately reflect all activity that has taken place, as well as serve to protect against errors and irregularities going undetected.

Furthermore, MnSCU accounting did not present student financial aid summary information timely. MSU recorded summary data on student financial aid only twice during the audit period: in May and December 1996. Summary data should be recorded in MnSCU accounting monthly. The detailed student financial aid transactions were not recorded on the MnSCU accounting system.

Metropolitan State University

Recommendations

- *Metropolitan State University needs to reconcile State Treasury accounts recorded on MnSCU accounting with MAPS on a monthly basis. The university also needs to reconcile its local bank accounts on a monthly basis to MnSCU accounting and subsequently to MAPS. Adjusting entries in the accounting system should be made at that time.*
- *Metropolitan State University should either record detailed student financial aid transactions on MnSCU accounting or record summary data on a monthly basis.*

2. Metropolitan State University did not maintain sufficient collateral for its local bank account.

Metropolitan State University did not maintain sufficient collateral for its local bank account. During the period July 1, 1995, through February 1, 1996, the cash balances within the local bank account grew from approximately \$230,000 to over \$4 million. The increase over this time period was primarily due to the accumulation of tuition revenues not transferred to the State Treasury. As a result, the increasing cash balances in the local bank account above the Federal Deposit Insurance Corporations' (FDIC) \$100,000 insured amount were placed at risk. We also noted that the cash balance per the local bank account statement for the month of June 1996 fluctuated between a low of \$179,000 and a high of \$511,000. Minn. Stat. Section 118A.03, Subd. 1, provides that:

To the extent that funds deposited are in excess of available federal deposit insurance, the entity shall require the financial institution to furnish collateral security...

Recommendation

- *Metropolitan State University should invest excess idle cash or make arrangements to secure sufficient collateral for its local bank account.*

Chapter 3. Tuition Revenue

Chapter Conclusions

Metropolitan State University did not design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. We found several weaknesses in the internal control structure over tuition receipts. The university did not adequately segregate cashier and registration duties. It also did not verify the accuracy of tuition revenue or adequately pursue collection of accounts receivable.

MSU currently offers both undergraduate and graduate programs. For the 96-97 school year, the tuition rate for undergraduate courses is \$53.00 per quarter credit plus miscellaneous fees. The tuition for graduate courses is \$80.15 per quarter credit plus fees. MSU charges nonresident students \$117.30 and \$126.95 per quarter credit for undergraduate and graduate courses, respectively. MSU collected approximately \$6.5 million in tuition and fees during fiscal year 1996.

Audit Objective and Methodology

Our review of Metropolitan State University's tuition and fee revenues focused on the following question:

- Did the university design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

To answer this question we interviewed university employees to gain an understanding of the controls over tuition and fees. We reviewed student registration and billing records and MnSCU accounting records to determine if MSU charged students appropriate tuition and fee rates, collected earned revenue, and properly recorded revenue transactions to MnSCU accounting. We also reviewed bank deposit documentation to determine if the university complied with material finance-related legal provisions. Finally, we reviewed collection activity to determine if the university appropriately followed up on accounts receivable.

Conclusions

Metropolitan State University did not design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the

Metropolitan State University

accounting records, and in compliance with applicable legal provisions and management's authorization. We found several weaknesses in the internal control structure over tuition receipts. The university did not adequately segregate cashier and registration duties. It also did not verify the accuracy of tuition revenue or adequately pursue collection of accounts receivable. Findings 3 through 5 discuss these weaknesses in the internal control structure.

3. Metropolitan State University did not have adequate controls over tuition receipts.

MSU did not have adequate controls over tuition receipts. First, in addition to handling cash, the cashier has the ability to input transactions into MSU's accounts receivable system that override tuition and fee charges. Additionally, during fiscal year 1996, registration staff had the ability to input a transaction into MSU's registration system which could have registered a student without creating charges in the accounts receivable system. Beginning in fiscal year 1997, the new MnSCU registration system was in place. Registration staff also handle cash. To properly safeguard tuition and fee collections, staff handling cash should not have the ability to initiate transactions that override tuition and fee charges.

MSU also reduced some tuition and fee amounts without appropriate evidence of approvals. The cashier reduced some tuition and fee charges based on informal authorization such as unsigned drop/add slips or notes. For example, the international student office authorized a tuition reduction of \$484.80 for a student using a note on a drop/add slip, but the slip was unsigned. The cashier sometimes waived fees based on informal notes from registration staff which were then thrown away. To properly control tuition and fee collections, MSU needs to establish a formal process to authorize and input transactions that override tuition and fee charges.

Finally, MSU did not consistently follow its policy for processing refunds to students. MSU uses drop/add slips signed by the registrar to authorize refunds. However, several examples were noted where MSU processed and paid refunds to students based on unsigned drop/add slips. Also, the cashier recorded refund transactions in MSU's accounts receivable system and had access to the refund checks. Another employee in the business office prepared the refund check, but sent the check back to the cashier for mailing to the student. To properly control refunds, MSU should only process refunds if drop/add slips are properly authorized, and staff recording refund transactions should not have access to refund checks.

Recommendations

- *MSU should not allow staff handling cash to have the ability to initiate transactions that override tuition and fee charges.*
- *MSU should strengthen its procedures for authorizing, documenting, and recording transactions that override tuition and fee charges.*
- *MSU should only process refunds that are properly authorized. Staff authorized to record refund transactions should not have access to refund checks.*

Metropolitan State University

4. Metropolitan State University did not verify the accuracy of tuition receipts.

MSU did not perform a complete reconciliation of billable credits to tuition receipts. The university attempted to do a reasonableness comparison of billable credits to tuition receipts. Billable credits were compared to tuition receipts with any difference assumed to be accounts receivable. However, this accounts receivable figure was never compared to actual accounts receivable records.

Without following through to verify the accuracy of the reconciliation and any differences, the reconciliation loses much of its value. Without this reconciliation, MSU cannot be assured that it collected and accounted for all earned tuition and fee receipts. Furthermore, MSU was not in a position to identify errors or irregularities related to tuition and fee receipts in a timely manner.

Recommendation

- *MSU should perform detailed reconciliations of billable credits to tuition and fee revenue on a regular basis.*

5. Metropolitan State University did not adequately pursue collection of accounts receivable.

MSU needs to improve its accounts receivable collection process. MSU did not have excessive accounts receivables for an institution of its size, but it could improve collection procedures for pursuing older accounts. The university did not use a collection agency or the state revenue recapture program to help collect outstanding accounts receivable. MSU did place holds on student records with outstanding account balances. However, registration staff could override holds. Without any external referral process or an effective internal process, MSU is unlikely to collect old account balances. MSU's total accounts receivable balance as of November 15, 1996, was \$171,403. Only about \$60,000, however, was from prior to the Fall 1997 quarter. Table 3-1 provides an aging of this balance.

Table 3-1
Accounts Receivable
As of November 15, 1996

<u>Academic Session</u>	<u>Amount</u>
Fall 1997	\$112,226
Summer 1997	6,054
Spring 1996	9,349
Winter 1996	8,551
Fall 1996	2,274
Prior	<u>32,950</u>
Total	<u><u>\$171,404</u></u>

MSU also did not review old account balances to determine if they were uncollectible. On the most recent aged accounts receivable balance report, one student's account balance was six years

Metropolitan State University

old, and several other account balances were five years old. These accounts may be uncollectible. MSU should write-off uncollectible account balances and focus collection efforts on collectible accounts. By writing-off uncollectible accounts, MSU could also more accurately report its accounts receivable balance.

Recommendations

- *MSU should refer outstanding account balances to a collection agency and the state revenue recapture program.*
- *MSU should tighten its procedures for overriding holds on student records.*
- *MSU should work with MnSCU to write-off old, uncollectible account balances.*

Chapter 4. Federal Student Financial Aid

Chapter Conclusions

Generally, we found that Metropolitan State University designed internal controls that were reasonable in providing assurance that Federal Student Financial Aid disbursements were in compliance with applicable laws and regulations. In addition, we found that the university has an effective process for packaging, awarding, and disbursing Pell grants. However, we noted some small overpayments and areas where the university could improve internal controls.

Metropolitan State University maintains its federal financial aid funds in a local bank account. MSU began using the new Minnesota State College and Universities (MnSCU) Accounting software (MnSCU Accounting) on July 1, 1995. Although local bank activity generally was recorded on MnSCU accounting beginning February 29, 1996, MSU did not begin entering its federal financial aid activity to MnSCU accounting until May 30, 1996. Financial aid detail was being recorded in the university's old accounting system (MAPPER). Beginning in June 1996, MSU attempted to interface their MAPPER system with MnSCU accounting, but were unsuccessful. In December 1996, MSU again made a summary entry to MnSCU accounting for the financial aid activity that occurred since June 1996.

MSU awards financial aid with the use of a computer program called SARA; however, MSU must manually enter the information into their Student Record System (SRS) for disbursement. SRS contains student registration information and adjusts student awards based on their registration. MSU currently awards and disburses Pell grants, and Stafford and Unsubsidized Stafford loans to eligible students. MSU did not participate in the Perkins loan program. Table 4-1 summarizes the financial aid disbursed for the Pell grant, Stafford Loan and Unsubsidized Stafford Loan programs for the first three quarters of the 1997 academic year as of January 31, 1997.

Table 4-1
Summary of Financial Aid Disbursed

	<u>Summer</u>	<u>Fall</u>	<u>Winter</u>
Pell Grant	\$ 96,729	\$ 326,874	\$ 321,761
Stafford Loans	270,264	821,590	885,401
Unsubsidized Stafford Loans	<u>127,801</u>	<u>355,593</u>	<u>368,541</u>
Total Aid/Quarter	<u>\$494,794</u>	<u>\$1,504,057</u>	<u>\$1,575,703</u>
Total Recipients	593 (1)	1,729 (2)	1,844 (3)

(1) 593 = 285 Pell grant recipients + 202 Stafford loan recipients + 106 unsubsidized Stafford loan recipients.

(2) 1,729 = 799 Pell grant recipients + 641 Stafford loan recipients + 289 unsubsidized Stafford loan recipients.

(3) 1,544 = 844 Pell grant recipients + 696 Stafford loan recipients + 304 unsubsidized Stafford loan recipients.

Source: Federal financial aid disbursements recorded in the Student Record System, report SRS-44 as of January 28, 1997.

Metropolitan State University

Audit Objectives and Methodology

Our review of federal financial aid programs (Pell grants, Stafford Loans, and Unsubsidized Stafford Loans) for the period July 1, 1996 through December 31, 1996 focused on the following questions:

- Did Metropolitan State University design and implement internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable general and specific program requirements?
- Did Metropolitan State University comply with applicable general requirements in its management of federal student financial aid programs for the items tested?

To answer these questions we interviewed university personnel, and reviewed disbursements, and made additional inquiries. We performed testing to verify that disbursements were properly awarded and accurately recorded in the Student Record System and MnSCU Accounting.

Conclusions

Generally, we found that Metropolitan State University designed and implemented internal controls that provided reasonable assurance that it was managing Federal Student Financial Aid programs in compliance with applicable laws and regulations. In addition, we found that the university had an effective process for packaging, awarding, and disbursing Pell grants. However, we noted some small overpayments and areas where the university could improve internal controls. These issues are discussed in Findings 6 through 8.

6. The student record system used by Metropolitan State University did not accurately calculate Pell grants for some part-time students.

The student record system (SRS) used by MSU did not accurately calculate Pell grants for some part-time students. The Pell grant schedules issued by the Federal Department of Education allow awards for part-time students to be prorated based on enrollment. However, once the expected family contribution for the student reaches \$1,700, awards are only made to full-time students. We noted two part-time students with EFC's greater than \$1,700 that still received a prorated share of their award. Each student received \$50 that should not have been awarded. MSU reported this overpayment to the Federal Department of Education on December 4, 1996.

Furthermore, another part-time student received \$195 of Pell grant funds that she was not entitled to. Students with an EFC of 0 were eligible for Pell grants of \$780 for full-time enrollment, \$585 for three-quarter-time enrollment, \$390 for half-time enrollment, and \$195 for less than half-time enrollment during academic year 1996. The student record system did not properly adjust this student's Pell grant award and awarded an additional \$195, which the student was not eligible to receive. MSU failed to notice the mistake and made the \$195 disbursement.

Metropolitan State University

Recommendations

- *Metropolitan State University should investigate the cause of the system flaw and either correct the flaw or establish a procedure to identify students with expected high family contributions and review their enrollment and award before disbursing aid.*
- *Metropolitan State University should seek reimbursement from the students who were overpaid, and search for any additional overpayments that may have occurred due to the system flaw.*

7. Metropolitan State University did not adhere to its Satisfactory Academic Policy.

Metropolitan State University's satisfactory academic policy states that aid recipients must successfully complete two-thirds of all courses registered for (attempted) with a minimum of a "C" average as a minimum standard for aid continuance. This requirement is applicable to both graduate and undergraduate-level students. Academic recording of grades lower than "C" will work against the student's total of successfully completed courses. These recordings may be N-no competence achieved or earned, L-lapsed, W-withdrew, after aid had been applied or disbursed, D-dropped or E-extension, blank-incomplete.

Out of five students tested, one failed to meet the two-thirds requirement in academic year 1995-96. However, the university continued to award the student aid without putting the student on probation. The university did not consider W's as unsuccessfully completed classes when calculating the percentage of successfully completed classes. MSU could change its policy to match its practice and be in compliance with federal regulations. However, it must adhere to whatever is set in the policy.

Recommendation

- *Metropolitan State University should either adhere to or adjust their Satisfactory Academic policy.*

8. Metropolitan State University did not adequately separate awarding and disbursing responsibilities.

The Financial Aid Director and Assistant Director were responsible for initiating and certifying Federal Family Education Loan (FFEL) awards. They also received incoming FFEL checks from lenders. The Financial Aid Director and Assistant Director verified student enrollment before sending the checks to the cashier's office. Federal regulations require separation of financial aid awarding from the disbursing or delivery functions. Optimally, the business office should receive FFEL loan checks directly.

An effective option the university should consider is receiving FFEL loan proceeds via electronic funds transfer (EFT). Receiving loan funds via EFT minimizes the need for lender check handling and eliminates logging the check data into the financial aid system. In addition, it

Metropolitan State University

would allow the business office to apply the loan funds directly against a student's institution costs.

Recommendations

- *Metropolitan State University management should not allow financial aid staff access to incoming FFEL loan checks. Ideally, financial aid checks should be sent directly to the business office.*
- *The university should consider receiving Federal Family Education Loan proceeds by electronic funds transfer (EFT) to minimize lender check handling and allow loan funds to be applied against institution costs.*

Chapter 5. Payroll and Administrative Expenditures

Chapter Conclusions

Metropolitan State University complied with the relevant provisions of the bargaining unit agreements relating to employee pay rates and leave accruals.

The university also properly processed and recorded payments for rent, supplies, and equipment. However, we noted the following areas of concern.

- *The university is providing space without a written agreement in place.*
- *The university did not adequately safeguard supplies and equipment stored in its warehouse.*

Metropolitan State University spent approximately \$21.7 million on payroll and administrative expenditures during fiscal year 1996. The largest expenditure type for the university is payroll which accounted for approximately 70 percent of its total expenditures. The two other major expenditure types covered by the audit were supplies and equipment, and rent. The university spent approximately \$1 million on supplies and equipment during fiscal year 1996 and \$1.7 million on the rental of nonstate-owned facilities.

Payroll

Our review of Metropolitan State University's payroll expenditures focused on the following questions:

- Did the university design internal controls to provide reasonable assurance that payroll expenditures were properly authorized, adequately supported, and accurately reported in the accounting records?
- Did university payroll expenditures comply with applicable bargaining unit agreements?

The audit methodology used to evaluate the audit objectives for payroll included inquiries, review of payroll and personnel documents, and interviewing key personnel. We performed testing to verify that payroll was accurately processed and recorded in the accounting records.

Conclusions

Generally, our review of payroll found that university employees were paid at the proper rates according to applicable bargaining unit agreements, and that payroll transactions were properly recorded in the accounting records.

Metropolitan State University

Supplies and Equipment

The primary objectives of our review of supplies and equipment expenditures were as follows:

- Did MSU design and implement internal controls to provide reasonable assurance that supply and equipment expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- Did MSU comply with material finance-related legal provisions for items tested?

To meet these objectives, we interviewed MSU employees to gain an understanding of the controls over supplies and equipment expenditures. We reviewed supplies and equipment expenditures to determine if they were properly authorized, processed, and recorded. We also reviewed supplies and equipment expenditures to determine if MSU complied with material finance-related legal provisions. Finally, we reviewed MSU's process to record and review fixed assets.

Conclusions

We concluded that, except for Finding 9, Metropolitan State University designed and implemented internal controls to provide reasonable assurance that supply and equipment expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. We found that Metropolitan State University records fixed assets on the State University Fixed Asset System (SUFAS) and employs an inventory clerk to perform inventory counts by department or location throughout the year. We also concluded that Metropolitan State University was in compliance with material finance-related legal provisions.

9. Metropolitan State University did not adequately safeguard supplies and equipment stored in its warehouse.

Metropolitan State University's warehouse did not provide adequate security for its supplies and equipment. The university stores supplies and equipment in a warehouse until delivery to appropriate departments. However, the warehouse was easily accessible. The warehouse contained a garage door with controls on the outside as well as inside. Additionally, nobody was stationed at the warehouse, and the warehouse was not visible from any of the offices at the university. Without adequate security, unauthorized individuals could enter the warehouse unnoticed and have access to supplies and equipment stored there. This situation increases the risk for significant amounts of supplies and equipment to be stolen from the warehouse.

Recommendation

- *Metropolitan State University should take steps to ensure that supplies and equipment stored in its warehouse are secure.*

Metropolitan State University

Rent

Metropolitan State University has several locations throughout the metropolitan area where classes are held. The main sites are St. Paul (main campus), Midway (law enforcement program), downtown Minneapolis, Piper Jaffary Building (downtown St. Paul), and the Northwest site in Brooklyn Center. With the exception of the main campus, Metropolitan State University currently rents the space at other sites.

Our review of rent focused on the following questions:

- Did Metropolitan State University design and implement internal controls to provide reasonable assurance that rent expenditures were properly authorized and accurately reported in the accounting records?
- Did MSU's rent expenditures comply with applicable statutory provisions and related lease agreements?

The audit methodology used to evaluate the audit objectives for rent included inquiries, reviewing payments, and interviewing key personnel. We performed testing to verify that payments were properly recorded in MnSCU accounting and the state's accounting system, MAPS.

Conclusions

We concluded that rent payments were properly authorized, accurately recorded in the accounting system, and in compliance with applicable legal provisions. However, as further explained in Finding 10, we found potential problems with one verbal arrangement.

10. Metropolitan State University did not ensure that it received sufficient value in exchange for free office space provided to a nonprofit organization.

Metropolitan State University did not have a written agreement outlining the conditions under which office space was provided to the Asian Media Access Group, in exchange for outreach services, curriculum development, shared use of furniture and video equipment, and supervision of student internships. Apparently, MSU entered into a verbal understanding with the Asian Media Access Group to provide it with office space in exchange for outreach services to the Asian-American community in the Twin Cities. The university has estimated the value of the space provided at approximately \$3,697, and \$4,597 for fiscal years 1996 and 1997, respectively. In addition, the group had access to other state resources such as faxes, phones, photocopiers, and office supplies. Although the understanding is for space only, there appears to be no procedures in place to monitor or charge for the use of supplies or equipment by the group.

Effective internal controls require a written agreement to specify the conditions under which the space is to be provided. The agreement should also address the use of state equipment and supplies. Finally, MSU should monitor the agreement to ensure it receives adequate value in return for the rented space.

Metropolitan State University

Recommendations

- *Metropolitan State University should establish a written agreement for providing space to the Asian Access Media Group in exchange for outreach services and any additional supplies or equipment if necessary.*
- *Metropolitan State University should establish a process for periodically monitoring the agreement to ensure it receives adequate value in return for the rented space.*

Chapter 6. Computer Store

Chapter Conclusions

Metropolitan State University did not measure the financial results of its computer store. Furthermore, it had inadequate controls over computer store sales and inventory.

Metropolitan State University operates a computer store through which university staff and students may purchase computers. Computer store financial activity recorded on MnSCU accounting showed revenues of \$613,000, and expenditures of \$556,000. As discussed in Finding 11, however, this financial information does not provide a complete and accurate account of the financial results of the computer store. The computer store expenditures do not include payroll costs for the computer store employee.

Audit Objective and Methodology

Our review of Metropolitan State University's computer store focused on the following question:

- Did the university design and implement internal controls to provide reasonable assurance that computer store receipts and inventory were adequately safeguarded and properly recorded in the accounting records?

To answer this question, we interviewed university employees to gain an understanding of the controls over the computer store and also reviewed accounting records, vendor invoices, deposits, purchase orders, computer store generated spreadsheets, and financial statements.

Conclusions

We found that Metropolitan State University did not have adequate internal controls to provide reasonable assurance that computer store receipts and inventory are adequately safeguarded and accurately reported in the accounting records. Metropolitan State University has not established basic internal control procedures over the computer store's operation. One individual has complete control over the entire computer store operation.

11. Metropolitan State University did not measure the financial results of its computer store.

Metropolitan State University did not accurately record all expenses of its computer store in the computer store account on MnSCU accounting. Computer store revenues for fiscal year 1996 as recorded on the MnSCU accounting system were approximately \$613,000, while the

Metropolitan State University

expenditures recorded on the system were approximately \$556,000. However, there are no payroll expenditures recorded in the computer store account for fiscal year 1996.

In addition to not recording payroll in the computer store account, the university, as noted in Finding 13, did not maintain inventory records for the computer store. Without this necessary information, the university is unable to measure the financial results of the computer store operations. Measuring the financial results of the computer store is necessary for the university to assure itself of the viability of the store and that related costs are fully recovered.

Recommendations

- *Metropolitan State University should ensure that all costs associated with the computer store are recorded in the computer store account.*
- *Metropolitan State University should measure the financial results of the computer store to ensure that all of the associated costs are recovered.*

12. Metropolitan State University did not have effective controls in place over computer store sales transactions.

Metropolitan State University had not designed a system of internal controls to effectively control sales at the computer store. The computer store buys computers at a discount for university staff and students wanting to purchase a computer. The computer store generally charges the buyer four percent above the price it paid for the computer. However, we noted some variances from this pricing policy.

One individual is responsible for all of the following duties:

- taking orders from customers,
- ordering the necessary computers from the vendor,
- receiving the computers when the shipment arrives,
- authorizing payment to the vendor,
- calculating amount owed by the customer,
- collecting payment from the customers, and
- preparing deposit records for the cashier and business office.

In addition, there is no cash register in the computer store. The deposit records submitted to the cashier and business office were spreadsheets prepared by the individual managing the computer store. Additionally, this individual was not aware of the requirement to make daily deposits when receipts total \$250 or more. Deposits were delayed in many instances. Finally, the computer store did not have a safe. Receipts were kept in a desk drawer until given to the cashier for deposit.

Without adequate separation of duties and fundamental control procedures in place, the university is unable to assure itself that material errors or irregularities would be detected in a timely manner.

Metropolitan State University

Recommendations

- *Metropolitan State University should review the overall computer store operation and implement the necessary control procedures so that the university can be in a position to prevent and detect material errors or irregularities should they occur.*
- *Metropolitan State University should have customers present their purchase order and make payments directly to the cashier prior to receiving their computer.*

13. Metropolitan State University did not establish controls over computer store inventory.

The computer store did not maintain any type of inventory records. The computer store must order in quantity to receive discounts from the vendors. Consequently, when the computer store fills orders from customers, it actually orders more computers than there are buyers. The extra computers are stored in a locked room in the computer store. However, there are no inventory records maintained to account for what should be in inventory. Without inventory records, we could not determine if all unsold computers were actually in inventory.

In addition, the computer store places some demo computers in the computer centers at the St. Paul and Minneapolis campuses. The computers are intended to be used until there are customers for them. Computer store personnel indicated that there are currently four computers at the computer centers that were purchased through the computer store as demos. However, without inventory records, we were unable to determine how many computers were at the computer centers or how long they had been there.

Recommendation

- *Metropolitan State University needs to develop and maintain an inventory system to effectively track the purchases and sales of merchandise.*

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Chapter 7. Private Grants

Chapter Conclusions

We found that Metropolitan State University has designed and implemented internal controls to provide reasonable assurance that private grants were collected and adequately safeguarded, and accurately reported in the accounting records. In addition, we found that Metropolitan State University expended its private grants in compliance with the provisions of the grant.

Private grants at Metropolitan State University are grants received from solicited foundations or the University's own foundation. In most instances the Director of Grants and Development and/or the President of the University will solicit grants from foundations throughout the United States. However, some donors will give grants only to non-profit organizations. In these instances the Metropolitan State University Foundation will accept the grant on behalf of the university. The university foundation will then transfer the funds to the university to use for the purposes outlined in the grant proposal. MSU received approximately \$400,673 in private grants during fiscal year 1996.

Metropolitan State University and Metropolitan State University Foundation have an agreement that establishes the obligations of each organization. While the university will provide some administrative support to the foundation, the foundation does have an independent accounting firm providing bookkeeping services. In addition, the foundation has an independent annual audit performed. Based on the last audit, the Metropolitan State University Foundation for the year ending June 30, 1996, had total revenues of \$146,738 and total expenses of \$108,530.

Metropolitan State University uses private grants to establish programs such as mathematics, purchasing management, high school outreach, and the designing of a new library.

Audit Objective and Methodology

Our review of private grants focused on the following question:

- Did Metropolitan State University design and implement internal controls to provide reasonable assurance that receipts for private grants were adequately safeguarded, properly recorded in the accounting records, and properly expended in accordance with the grant agreement?

The audit methodology used to evaluate the audit objectives for private grants included inquiries, reviewing grant and expenditure documentation, and interviewing key personnel. We performed testing to verify payments were properly recorded in the accounting records.

Metropolitan State University

Conclusions

We found that Metropolitan State University has designed and implemented internal controls to provide reasonable assurance that private grants were collected and adequately safeguarded, and accurately reported in the accounting records. In addition, we found that Metropolitan State University expended its private grants in compliance with the provisions of the grant.

Metropolitan State University

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President

April 30, 1997

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

We would like to thank you and your staff for the professional manner in which our recent audit was conducted. The findings and recommendations will help us improve our financial management. Our responses appear beneath each recommendation as follows:

1. Metropolitan State University did not verify the accuracy of financial activity recorded in either its local bank account or in the State Treasury.

- *Metropolitan State University needs to reconcile State Treasury accounts recorded on MnSCU accounting with MAPS on a monthly basis. The university also needs to reconcile its local bank accounts on a monthly basis to MnSCU accounting. Adjusting entries in the accounting system should be made at that time.*

◇ We concur. The reconciliations are current through March, 1997.

Responsible party: Kristal Henel Implementation date: 3/27/97

- *Metropolitan State University should either record detailed student financial aid transactions on MnSCU accounting or record summary data on a monthly basis.*

◇ We concur. Monthly summary data have been recorded beginning January, 1997.

Responsible party: Kristal Henel Implementation date: 1/1/97



2. Metropolitan State University did not maintain sufficient collateral for its local bank account.

- *Metropolitan State University should invest excess idle cash or make arrangements to secure sufficient collateral for its local bank account.*
- ◊ We concur. Metropolitan State University does invest its idle, local cash to maximize return. Full collateralization for the account has been provided under the State Treasurer's surety bond (see attached letter) to ensure coverage of treasury receipts waiting to be electronically swept.

Responsible party: Kristal Henel

Implementation date: 4/23/97

3. Metropolitan State University did not have adequate control over tuition receipts.

- *MSU should not allow staff handling cash to have the ability to initiate transactions that override tuition and fee charges.*
- ◊ We concur. Registration staff have not had the ability to override charges since the implementation of the MnSCU registration system on 4/1/96. Cashiers' will have this ability removed upon the hiring of an accounts receivable staff employee.

Responsible party: Kristal Henel

Implementation date: 4/1/96 & 6/1/97

- *MSU should strengthen its procedures for authorizing, documenting, and recording transactions that override tuition and fee charges.*
- ◊ We concur. A procedure and forms to authorize and document adjustments to students' accounts have been developed and implemented.

Responsible party: Kristal Henel

Implementation date: 4/1/97

- *MSU should only process refunds that are properly authorized. Staff authorized to record refund transactions should not have access to refund checks.*
- ◊ We concur. Accounts payable staff will not process refunds without the proper authorizing signature and will mail the refund.

Responsible party: Kristal Henel

Implementation date: 4/1/97

4. Metropolitan State University did not verify the accuracy of tuition receipts.

- *MSU should perform detailed reconciliations of billable credits to tuition and fee revenue on a regular basis.*

◇ Metropolitan State University does not concur. A detailed reconciliation will demand a disproportionate amount of staff time.

Addressing items listed in finding 3 and the addition of an accounts receivable position for which we are currently recruiting will allow us to perform adequate and reasonable reconciliation.

Responsible party: Kristal Henel

Implementation date: 6/1/97

5. Metropolitan State University did not adequately pursue collection of accounts receivable.

- *MSU should refer outstanding account balances to a collection agency and the state revenue recapture program.*

◇ We concur. We are in the process of hiring an accounts receivable staff to perform these duties.

Responsible party: Kristal Henel

Implementation date: 6/15/97

- *MSU should tighten its procedures for overriding holds on student records.*

◇ We do not concur. Since the installation of the MnSCU registration system on 4/1/96, the Registration Office can no longer override holds on student records.

Responsible party: Kristal Henel

Implementation date: 4/1/96

- *MSU should work with MnSCU to write-off, uncollectible account balances.*

◇ We concur. MSU will gather account information and request a procedure from MnSCU to perform this task.

Responsible party: Kristal Henel

Implementation date: 7/1/97

6. The student record system used by Metropolitan State University did not accurately calculate Pell grants for some part-time students.

- *Metropolitan State University should investigate the cause of the system flaw and either correct the flaw or establish a procedure to identify students with expected high family contributions and review their enrollment and award before disbursing aid.*

◇ We concur. MSU is in the process of identifying the system flaw for correction. MSU currently, manually reviews all student's whose family contributions are high to ensure proper awarding.

Responsible party: Jim Cleaveland

Implementation date: Procedure
3/15/97; Local programming change
7/1/97

- *Metropolitan State University should seek reimbursement from the students who were overpaid, and search for any additional overpayments that may have occurred due to the system flaw.*

◇ We concur. MSU has reviewed all student files fitting this profile and found additional overawards.

Responsible parties: Jim Cleaveland
& Kristal Henel

Implementation date: 4/28/97

MSU has billed the six students who have been overawarded.

7. Metropolitan State University did not adhere to its Satisfactory Academic Progress Policy.

- *Metropolitan State University should either adhere to or adjust their Satisfactory Progress Academic Policy.*

◇ We concur. MSU will adjust the policy effective 7/1/97.

Responsible parties: Jim Cleaveland

Implementation date: 7/1/97

8. Metropolitan State University did not adequately separate awarding and disbursing responsibilities.

- *Metropolitan State University management should not allow financial aid staff access to incoming FFEL loan checks., Ideally, financial aid checks should be sent directly to the business office.*

- ◇ We concur. Financial aid checks will be delivered directly to the cashier's office for disbursement to the student. The cashier's office will inform financial aid of individual student checks delivered, borrower, and amounts within two days of delivery.

Responsible party: Kristal Henel

Implementation date: 6/10/97

- *The university should consider receiving Federal Family Education Loan proceeds by electronic funds transfer (EFT) to minimize lender check handling and allow loan funds to be applied against institution costs.*

- ◇ We will investigate and give full consideration to receiving Federal Family Education Loan proceeds by electronic funds transfer.

Responsible parties: Jim Cleaveland
& Kristal Henel

Implementation date: 8/1/97

9. Metropolitan State University did not adequately safeguard supplies and equipment stored in its warehouse.

- *Metropolitan State University should take steps to ensure that supplies and equipment stored in its warehouse are secure.*

- ◇ We concur. A secure enclosure has been built and procedures are in place to ensure the safety of supplies and equipment received and shipped.

Responsible party: Jill Bemis

Implementation date: 3/1/97

10. Metropolitan State University did not ensure that it received sufficient value in exchange for free office space provided to a nonprofit organization.

- *Metropolitan State University should establish a written agreement for providing space to the Asian Access Media Group in exchange for outreach services and any additional supplies or equipment if necessary.*

- ◇ We concur. A formal written agreement has been prepared and executed.

Responsible party: Daniel Kirk

Implementation date: 4/18/97

- *Metropolitan State University should establish a process for periodically monitoring the agreement to ensure it receives adequate value in return for the rented space.*

- ◇ A process for monitoring, reporting and evaluating the adequacy of value offered in return for the space is included in the agreement.

Responsible party: Fred Kirchhoff

Implementation date: 4/18/97

11. Metropolitan State University did not measure the financial results of its computer store.

- *Metropolitan State University should ensure that all costs associated with the computer store are recorded in the computer store account.*

- ◇ Metro does not concur. The scale of the activity does not justify the staff time required to develop and maintain a full cost accounting procedure. The major cost is associated with the staff member who devotes a portion of his time to the store. Metropolitan State University will charge one-third of the cost of that position against the operating costs of the unit.

Responsible party: Kristal Henel

Implementation date: 5/1/97

- *Metropolitan State University should measure the financial results of the computer store to ensure that all of the associated costs are recovered.*

- ◇ Metro does not concur. See above. Metro believes the benefit to the institution gained through favorable pricing and the application of the "profits" to equipping the computer labs affects the balance of the related costs. The financial reports of the store are reviewed monthly and annually.

Responsible party: Kristal Henel

Implementation date: 5/1/97

12. Metropolitan State University did not have effective controls in place over computer store sales transactions.

- *Metropolitan State University should review the overall computer store operation and implement the necessary control procedures so that the university can be in a position to prevent and detect material errors or irregularities should they occur.*

- ◇ We concur. A comprehensive procedure has been written and will be reviewed with the staff involved.

Responsible parties: Kristal Henel
& Liz Houle

Implementation date: 5/15/97

- *Metropolitan State University should have customers present their purchase order and make payments directly to the cashier prior to receiving their computer.*

◇ We concur. This process is now in place.

Responsible party: Kristal Henel

Implementation date: 4/15/97

13. Metropolitan State University did not establish controls over computer store inventory.

- *Metropolitan State University needs to develop and maintain an inventory system to effectively track the purchases and sales of merchandise.*

◇ We concur. MSU computer store, according to the new procedure, will record all orders and sales with full details. A separate inventory system will be maintained for any merchandise held in stock.

Responsible parties: Kristal Henel
& Liz Houle

Implementation date: 5/15/97

Sincerely,



Dr. Susan A. Cole
President

cc: Gordon Scott, MSU Vice President
Laura King, MnSCU Vice Chancellor for Finance
Al Finlayson, MnSCU System Director for Internal Auditing