

Moorhead State University

Financial Audit

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

July 1997

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

97-36



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Moorhead State University

We have audited Moorhead 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, equipment, and bookstore activities. 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 these issues more fully in the individual chapters of this report.

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

This report is intended for the information of the Legislative Audit Commission and the management of Moorhead State University. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 25, 1997

Report Signed On: June 26, 1997

SUMMARY

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Moorhead State University

Financial Audit

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

Public Release Date: July 2, 1997

No. 97-36

Background Information

Moorhead 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. Moorhead State University is a four year university serving the Moorhead area. Dr. Roland Barden is the president of Moorhead State University.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of financial activities of the university and to determine if the university complied with material finance-related legal provisions. The areas covered by our audit were tuition and fees, payroll and other administrative expenditures, and bookstore revenues and expenditures for the period July 1, 1995, through December 31, 1996. We also reviewed the university's internal control structure over compliance with federal student financial aid for the period July 1, 1996, to December 31, 1996.

We concluded that Moorhead State University had a good system of internal control over its financial management practices and generally operated in compliance with management's authorization and applicable legal requirements for the items tested, including federal student financial aid regulations. The university had a sufficient process for developing its budget and monitoring its financial operations. Except for an inadequate separation of duties over its cashier function, the university designed and implemented internal controls to provide reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems. In addition, the university properly accounted for and controlled its local bank accounts.

Moorhead State University designed and implemented internal controls that provided reasonable assurance that bookstore revenue collections were complete, promptly deposited and accurately recorded in the accounting records. In addition, bookstore expenditures were properly authorized, documented, and accurately recorded in the accounting records. Bookstore inventory was also effectively controlled. We noted, however, that the university did not establish a systematic basis on which to assess an administrative fee to its bookstore.

Moorhead State University concurred with the audit report's findings and recommendations. The university indicated that it has already taken corrective action concerning the inadequate separation of duties over the cashier function. In addition, the university intends to execute a written agreement with the bookstore concerning the administrative fee assessed and to work with the MnSCU system office to establish a reasonable amount to reimburse the General Fund for various costs.

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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
Charlie Gill	Auditor-In-Charge
Pat Ryan	Auditor
Marina Mirman	Auditor
Laura Dombeck	Auditor

Exit Conference

The following staff of Moorhead State University and the MnSCU system office participated in the exit conference held on June 10, 1997:

MnSCU System Office:	
Laura King	Vice Chancellor
Teri Welter	Director of Campus Accounting
Moorhead State University:	
David Crockett	Vice President
Verlee Thies	Comptroller

Chapter 1. Background Information

Moorhead 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. Moorhead State University was established in 1887. Dr. Roland Barden is the president of Moorhead State University and has served in that position since July 1, 1994.

Moorhead State University finances its operations primarily through state appropriations and student tuition and fees. Table 1-1 highlights the sources and uses of funds in the General Fund for fiscal year 1996.

Table 1-1
General Fund Financial Activity
Fiscal Year 1996

Sources:	
State Appropriation	\$24,371,152
Balance Carried Forward	1,095,429
Tuition Revenue	13,500,041
Other Revenue	<u>721,447</u>
Total Sources	<u>\$39,688,069</u>
Uses:	
Payroll	\$30,074,871
Other Expenditures	<u>6,966,764</u>
Total Uses	<u>\$37,041,635</u>
Balance	<u>\$ 2,646,434</u>

Source: Auditor prepared from MnSCU Accounting.

In addition, MSU owned and operated a bookstore which generated revenues of \$6,700,855 during fiscal year 1996. The university also provided its students with access to residence halls, student unions, and food service; fees for these services were deposited to the Minnesota State Universities Revenue Fund administered by the MnSCU system office. The Revenue Fund is audited annually by a public accounting firm.

During fiscal year 1996, Moorhead State University had an enrollment of 6,500 full and part-time students. MSU offers over 60 programs and majors which lead to associate, baccalaureate, master's, and specialist degrees. During the 1995-96 academic year, MSU changed from the quarter system to a semester basis.

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Moorhead State University is affiliated with the Moorhead Foundation, an autonomous, non-profit organization. The foundation offers scholarships and funds for other activities which benefit the educational mission of the university. The foundation was audited by a private CPA firm. The fiscal year 1996 audited financial statements showed \$1,108,935 in revenues and \$585,767 in expenditures.

From 1985 to 1991, the number of students enrolled at MSU increased steadily from 7,737 to 9,151. An equally steady decline began in 1992 to the 6,500 students enrolled for the 1995-96 academic year. The decline in student enrollment and resulting impact on available funds caused MSU to implement budget reduction plans in the early to mid 1990's.

Chapter 2. Financial Management

Chapter Conclusions

Moorhead State University had a good system of internal control over its financial management practices during the audit period. The university had a sufficient process for developing its budget and monitoring its financial operations. MSU also properly recorded its financial activities on the MnSCU and MAPS accounting systems. In addition, the university properly accounted for and controlled its local bank accounts.

On July 1, 1995, when MnSCU merged as a system, it implemented a new computerized accounting system (MnSCU accounting). 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 and SCUPPS to account for all of its 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's accounting system was called the Minnesota Accounting and Procurement System (MAPS). Its personnel/payroll system was referred to as the State Employee Management System (SEMA4).

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

The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. Moorhead State University uses MnSCU accounting to initiate transactions which involve appropriated funds. Through a system interface, MnSCU accounting feeds these transactions to MAPS. At that time, MAPS generates State Treasury warrants for state appropriated expenses. In addition, SCUPPS interfaces with SEMA4 to produce payroll warrants on a biweekly basis.

MnSCU campuses also administer funds in local bank accounts separate from the State Treasury. Moorhead State university maintained three local bank accounts for its general operations, federal Perkins loan funds, and student payroll activities.

The federal Perkins loan program was the only activity not on the MnSCU and MAPS accounting systems. The federal Perkins loan program was accounted for in the local account records, and year end summary entries were made to the MnSCU accounting system.

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MSU administration has the ultimate responsibility for financial planning, budgeting, and spending decisions. It is the university's responsibility to develop and adhere to a budget that is fiscally sound. MSU's process for monitoring the budget involved various levels of management, including the president. The university discussed budget and spending information at weekly presidential cabinet meetings.

The university has four operating divisions: Public Affairs, Academic Affairs, Administrative Affairs, and Student Affairs. The Public Affairs Division operated under the direction of the president. Each of the other divisions operated under a vice president. The Administrative Affairs Division, responsible for the financial affairs of the university, included the business office, purchasing section, bookstore, personnel office, payroll, and post office. The business office has a comptroller and 19 employees. The business office oversees the cashiering, accounts receivable, and payroll functions. The purchasing section performs purchasing and accounts payable functions. The MSU comptroller reconciles MnSCU accounting with MAPS on a monthly basis.

Audit Objectives and Methodology

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

- Did Moorhead State University have a sufficient process for developing its budget and monitoring its financial operations?
- Did Moorhead State University properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Moorhead State University properly account for and control local bank accounts?

To answer these questions, we interviewed the president to determine the university's overall budgeting process and the controls over cash management, safeguarding of assets, and recording of financial transactions. We also interviewed other 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 gained an understanding of management controls in place over the local bank account and the tuition and fees, including room and board, student financial aid, administrative expenditures, and book store activities, that would impact on MSU's ability to properly record its financial activities in MnSCU accounting and, subsequently, to the state's 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 to determine if the university complied with material finance-related legal provisions.

Conclusions

Generally, we found that Moorhead State University had strong financial management controls. The university had a sufficient process for developing its budget and monitoring its financial operations. MSU also properly recorded its financial activities on the MnSCU and MAPS accounting systems. In addition, the university properly accounted for and controlled its local bank accounts.

Chapter 3. Tuition and Fees

Chapter Conclusions

Except for an inadequate separation of duties over the cashier function, Moorhead State University designed and implemented internal controls that provided reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and policy provisions.

Moorhead State University collected \$13.5 million in tuition and \$2.3 million in fee revenues in fiscal year 1996. The tuition rates for the 1995-96 school year were \$73.60 per credit for Minnesota residents. Fees were \$15.75 per credit. The university began using semester terms in Fall 1995. Students register for courses at the registrars office, which initiates a tuition and fee charge posted to the student receivable system. Other charges, such as room and board, are posted to the student receivable system as well. Tuition, fees, and other charges were paid by cash, check, credit card, or financial aid. Upon payment by the student, a university cashier posts the payment against the student balance owed.

Audit Objectives and Methodology

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

- Did Moorhead State University design and implement internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and policy provisions?

To answer this question, we interviewed university employees to gain an understanding of the controls over the billing, collecting, and recording of tuition and fee revenues. 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 tested transactions to determine the timeliness of deposits and the recording of revenue on the MnSCU and MAPS accounting systems.

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Conclusions

Except for an inadequate separation of duties over the cashier function, Moorhead State University designed and implemented internal controls that provided reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and policy provisions.

1. Moorhead State University did not adequately separate duties over the cashiering function for tuition and fee revenues.

Cashiers in the business office performed incompatible revenue functions. In addition, there was no control to assure that all receipts posted to the student accounts receivable system were deposited.

The cashiers are responsible for collecting tuition and fee receipts, reconciling the receipts to the university's student accounts receivable system, preparing the daily deposit, and posting the receipts to the student accounts receivable system and to MnSCU accounting. To maintain an adequate separation of duties, the accounting or record keeping function should be maintained by an individual not having access to or responsibility for cash handling duties.

Prior to the MnSCU accounting system coming on-line in July 1995, the accounting manger reconciled the bank account to receipts posted to the student accounts receivable system. This reconciliation assured that receipts posted to the student accounts receivable system were deposited. Since that time, the student accounts receivable system has not interfaced with the MnSCU accounting system. As a result, the cashiers manually posted the receipts to MnSCU accounting. The accounting supervisor reconciled MnSCU cash balances to the monthly bank statement but did not trace the collections to the accounts receivable system. Because the reconciliation was between MnSCU accounting and the bank statement, there was no control to assure that all receipts posted to the student accounts receivable system had been deposited.

Recommendations

- *The Moorhead State University should implement control procedures to assure that all receipts posted to the student accounts receivable system are deposited.*
- *The cashiers duties should not include posting tuition or fee revenues to the MnSCU accounting system.*

Chapter 4. Federal Student Financial Aid

Chapter Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that it was managing federal student financial aid programs in compliance with applicable general and specific program requirements. In addition, for the student financial aid items tested, disbursements were properly authorized for eligible students and accurately reported in the accounting records. Moorhead State University complied with applicable general federal requirements over the management of cash and timely and accurate reporting of financial aid activity.

Moorhead State University participates in the following student financial aid programs administered by the U.S. Department of Education:

- The Federal Pell Grant Program (CFDA #84.063)
- The Federal Family Education Loan (FFEL) Program (CFDA #84.032)
- The Federal Work-Study (FWS) Program (CFDA #84.033)
- The Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- The Federal Perkins Loan Program (CFDA #84.038)

Financial aid was granted to 73 percent of the students at the Moorhead State University. Need-based aid was received by 42 percent of the student population. We reviewed the Federal Pell Grant, Federal Perkins Loan, and Federal Family Education Loan Programs.

The Federal Pell Grant is generally considered the first source of assistance to students. Since Pell Grant payments are not limited to the available funds at the university, all eligible students receive aid payments. The maximum Pell Grant for a full-time student in the 1996-97 award year was \$2,470.

Under the Federal Family Education Loan Program, private lenders provide the loan principal and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

Moorhead State University also participates in the Federal Perkins Loan program. Federal Perkins Loans are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay their post secondary educational costs. The university must give priority to students with exceptional financial need. Moorhead State

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University's Perkins Loan office manages most of the awarding, payment and collection functions, and all accounting functions. Table 4-1 below shows the financial aid activity for the 1997 Fall Semester.

Table 4-1		
Federal Financial Aid Payments to Students During Fall Semester 1997		
<u>Type of Payment</u>	<u>Fall Semester 1997 Student Participation</u>	<u>Fall Semester 1997 Aid Disbursed</u>
The Federal Pell Grant Program	1,657	\$1,333,278
The Federal Subsidized Stafford Loans Program	2,969	\$8,360,365
The Federal Unsubsidized Stafford Loans Program	1,822	\$4,355,111
The Federal Work-Study Program	306	\$ 243,430
The Federal Supplemental Education Opportunity Grant Program (SEOG)	673	\$ 228,911
The Federal Perkins Loan Program	360	\$ 420,128

Source: Student Financial Aid System 96-97 Financial Aid Weekly Summary Expenditures/Encumbrances.

Audit Objectives and Methodology

Our review of federal financial aid programs for the period July 1, 1996, through December 31, 1996, focused on the following questions:

- Did Moorhead 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 Moorhead State University comply with applicable general requirements in its management of federal student financial aid programs for the items tested?

To address these questions, we interviewed university employees to gain an understanding of the controls over student financial aid; we evaluated and tested controls over compliance for determining student eligibility, awarding, packaging, and disbursing federal financial aid. We also evaluated and tested controls over compliance for managing cash and reporting federal expenditures.

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Conclusion

Moorhead State University designed and implemented internal controls that provided reasonable assurance that it is managing federal student financial aid programs in compliance with applicable general and specific program requirements. In addition, for the student financial aid items tested, disbursements were properly authorized for eligible students and accurately reported in the accounting records. Moorhead State University complied with applicable general federal requirements over the management of cash and timely and accurate reporting of financial aid activity.

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Chapter 5. Administrative Expenditures

Chapter Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that payroll expenditures, including student payroll, were properly authorized and accurately reported in the accounting records. In addition, the university paid employees and accrued leave in accordance with bargaining agreements and pay plans.

Moorhead State University designed and implemented internal controls that provided reasonable assurance that equipment expenditures were properly authorized and accurately reported in the accounting records.

Payroll

Payroll costs for university employees, other than student employees, during the period July 1, 1995, through June 30, 1996, for all funds totaled \$32,689,865. Moorhead State University uses SCUPPS and SEMA4 for processing payroll information. The university did not convert to SEMA4 until the pay period ending October 1, 1996. Therefore, the majority of the university's payroll transactions during our audit period were on PPS, the state's former payroll system, and SCUPPS.

Currently, SCUPPS stores employee payrate information, bargaining agreement history, and demographic information and computes the gross pay for each employee. However, it does not process the biweekly payroll or generate checks. SEMA4 also contains payrate information and is the system that performs biweekly payroll processing and check generation. Additionally, SEMA4 handles leave accrual for regular classified employees. The payroll clerk reconciles the classified employees' records with the Department of Finance's Biweekly Leave Report. Faculty leave accruals are maintained on a local program designed in SCUPPS.

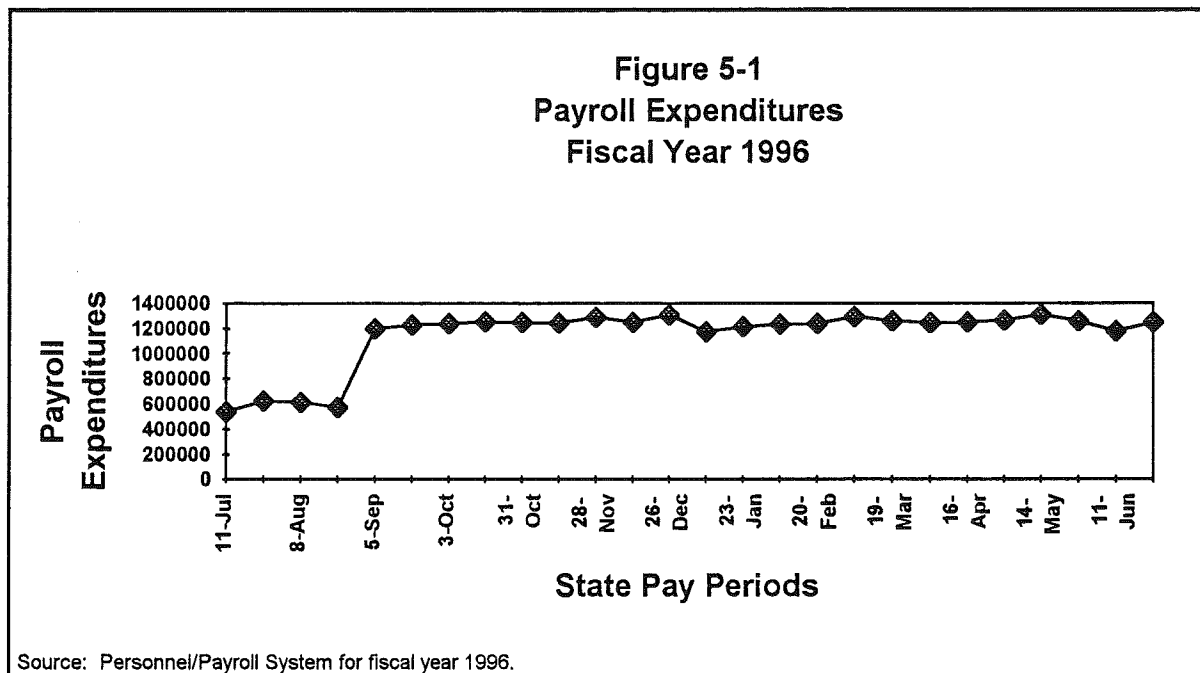
Moorhead State University employees are members of the following bargaining unions: MMA, MNA, AFSCME, IFO, MAPE, and MSUAASF. The average number of employees on the payroll system was 711 during the 1995-96 school year.

In addition to regular employees, Moorhead State University employs approximately 1,300 student workers. MnSCU accounting showed student payroll expenditures of \$2,321,877 for the period July 1, 1995, through June 30, 1996. Student payroll was processed on campus and did not go through the state's payroll systems. Departments on campus submit written requests to the payroll office for students to be placed on the university's payroll. Time cards are collected by the payroll office and forwarded to the university's computer center for processing. Moorhead maintains a separate local bank account solely for student payroll. This account was reconciled

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on a monthly basis. MSU's accounting office posts the expenditure to the MnSCU accounting system. All payroll expenditures are entered each pay period by cost center.

Figure 5-1 illustrates payroll expenditures, other than student payroll, for Moorhead State University during fiscal year 1996.



Faculty have the option of being paid their full salary during the school year or to be paid on a calendar year basis. Lower payroll costs in July and August show that many faculty members had chosen to be paid on a school year basis.

Audit Objectives and Methodology

Our review of Moorhead State University's payroll expenditures, including student payroll, focused on the following questions:

- Did Moorhead State University design and implement internal controls to provide reasonable assurance that payroll expenditures, including student payroll, were properly authorized and accurately reported in the accounting records?
- Did Moorhead State University's regular payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To address these questions, we gained an understanding of the payroll process, reviewed payroll and personnel documents, and interviewed key personnel responsible for payroll. We tested payroll expenditures and reviewed employees' rates of pay and leave accrual balances.

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Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that payroll expenditures, including student payroll, were properly authorized and accurately reported in the accounting records. In addition, the university paid employees and accrued leave in accordance with bargaining agreements and pay plans.

Equipment

Moorhead State University's equipment expenditures for the period July 1, 1995, through June 30, 1996, on MnSCU accounting totaled \$1,270,934. The university had two purchase order systems in place. The old system was a manual purchase order system. Approximately half of the departments on campus used this system as it was being phased out. The new system allows departments to enter their purchase orders on-line. The same authorization and processing procedures apply with the new system as with the old system.

Audit Objectives and Methodology

Our review of Moorhead State University's equipment expenditures focused on the following question:

- Did Moorhead State University design and implement internal controls to provide reasonable assurance that equipment expenditures were properly authorized and accurately reported in the accounting records?

To address this question, we interviewed university personnel to gain an understanding of the controls in place throughout the equipment purchasing process. We reviewed the reasonableness of equipment expenditures and traced selected transactions through the requisition and payment process and subsequent posting to MnSCU accounting.

Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that equipment expenditures were properly authorized and accurately reported in the accounting records.

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Chapter 6. Bookstore Operations

Chapter Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records. In addition, bookstore expenditures were properly authorized, documented, and accurately recorded in the accounting records. Bookstore inventory was also effectively controlled. However, the university did not establish a systematic basis on which to assess an administrative fee to its bookstore.

Moorhead State University bookstore sells text books, computers, computer software, apparel, and other miscellaneous supplies. The bookstore also operates a convenience store called the Dragon Stop which sells food, beverages, newspapers and other items. The bookstore expanded the size of its sales area in the early 1990's. The expansion was funded through loans from university's College Activities, Health Services, and Agency Funds. Loans totaled \$650,000 between the period July 1991 and June 1993. The loans carried an interest rate of 6 percent. The bookstore makes periodic principal and interest payments. As of June 30, 1996, the outstanding principal balance was \$400,000.

The bookstore pays the university an administrative fee of 6.5 percent of gross sales on all sales except computer hardware and repair parts. For the year ended June 30, 1996, the bookstore paid an administrative fee of \$191,822. In order to cover the costs of rent and maintenance expenses, \$40,285 of the fee was submitted to the state's General Fund. The remainder was used by the university for funding scholarships.

The bookstore processes sales through cash registers. Students have the option of paying by cash, checks, or credit cards. New and used books may be purchased by charges to financial aid. At the end of the day, bookstore employees close out the cash registers and lock the receipts in a safe. The following day, the head cashier counts the receipts and reconciles the amounts to the cash register tapes. These reconciliations are then reviewed by another bookstore employee to assure accuracy. A third bookstore employee inputs the sales totals by category into MnSCU accounting.

Major bookstore purchasing involves computer hardware, books, and apparel. The bookstore performs all functions relating to purchasing and payment processes. Bookstore supervisors are responsible for specific inventory areas. Until May 1996, the bookstore processed payments using the university's accounts payable system. Payments made from this system were then manually entered into MnSCU accounting. Since that time the bookstore has used the MnSCU accounting check writer program to process payments.

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Table 6-1 summarizes the bookstore income and expense statement for fiscal year 1996.

Table 6-1
Summary of Bookstore Revenues and Expenses
Fiscal Year 1996

Revenue:	
Computer Hardware	\$3,468,723
New Books	1,415,418
Used Books	734,051
Dragon Stop Sales	197,218
Clothing	174,090
Computer Software	108,413
Other revenue	<u>602,942</u>
Total Revenue	\$6,700,855
Expenses:	
Cost of Goods Sold	\$5,715,151
Payroll	486,756
Administrative Fee - (Note 2)	191,822
Other Operating Expenses	<u>230,822</u>
Total Expenses	\$6,624,551
Net Income	<u>\$ 76,304</u>

Note 1: Our objectives did not include providing an opinion on bookstore financial statements. These amounts are presented for informational purposes only.

Note 2: See Finding 2.

Source: Bookstore financial records.

Audit Objectives and Methodology

Our review of Moorhead State University's revenue and expenditures of its bookstore operations focused on the following questions:

- Did Moorhead State University design and implement internal controls to provide reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records?
- Did Moorhead State University design and implement internal controls to provide reasonable assurance that bookstore expenditures were properly authorized, documented, and accurately recorded in the accounting records?

To address these questions, we interviewed bookstore staff to gain an understanding of the bookstore's operations and to determine how revenues and expenditures were processed. We reviewed the controls over the bookstore revenue and expense processes and inventories. We sampled bookstore revenues generated by daily sales activity. We also performed detailed tests of bookstore disbursements.

Moorhead State University

Conclusions

Moorhead State University designed and implemented internal controls that provided reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records. In addition, bookstore expenditures were properly authorized, documented, and accurately recorded in the accounting records. Bookstore inventory was also effectively controlled. However, the university did not establish a systematic and rational basis on which to assess an administrative fee to its bookstore.

2. Moorhead State University did not have a systematic process to determine the administrative fee it charges its bookstore.

Moorhead State University assessed a 6.5 percent administrative fee against certain sales of its bookstore for fiscal year 1996. An administrative fee implies that the bookstore was expected to reimburse the university for certain support costs, or for the opportunity to conduct business on campus. The bookstore subsequently reimbursed the General Fund for \$40,285 of the \$191,822 administrative fee in fiscal year 1996. We were told this reimbursement represented space rental and maintenance expenses. The remaining \$151,537 was used for student scholarships, not as a reimbursement for any apparent support costs. In effect, these scholarships represented a use of residual bookstore profits.

We did not find a systematic basis for determining the amount reimbursed to the General Fund. It was not apparently based on the market rental value of the space occupied by the bookstore, nor was the amount based on any cost allocation formula. The bookstore also paid the same annual amount to the General Fund as it had in fiscal years 1994 and 1995. A former state university system policy 6.8 (Bookstore Management Policy) carried over to MnSCU provides in Subdivision 2 that, "All costs associated with providing facilities, custodial, maintenance, and utilities for the bookstore operation will be fully reimbursed to the M&E Account or the Revenue Fund depending on the source of funds."

Moorhead State University was also unable to provide the basis for the 6.5 percent administrative fee. We were told that a former vice president had determined the 6.5 percent rate after surveying other colleges several years ago. We were also told that the percentage was intended to represent an average return paid by private vendors of bookstore operations to universities.

Finally, we are concerned that the amount of scholarships paid by the bookstore was arbitrary. Although the scholarships effectively used residual profits, the amount is not based on the bookstore's net income.

Recommendations

- *Moorhead State University should have a written agreement with the bookstore which specifies the administrative fee assessed, what the fee is intended to represent, and how the fee collected will be spent (i.e., scholarships). In addition, the agreement should indicate how residual bookstore profits are to be used (i.e., debt repayment, scholarships).*
- *Moorhead State University should work with the MnSCU system office to determine a reasonable amount that the bookstore should reimburse to the General Fund for space rental, maintenance expense, and other support costs.*

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MOORHEAD STATE UNIVERSITY

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Moorhead, Minnesota 56563

OFFICE OF THE PRESIDENT
(218) 236-2221

June 18, 1997

James Nobles,
Legislative Auditor
100 Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Moorhead State University's internal control structure over the accounting and reporting of its financial activities for the period July 1, 1995 through December 31, 1996.

My thanks to your staff for the professional and courteous manner in which they conducted the audit.

Listed below is our response to the findings:

TUITION AND FEES

Finding: Moorhead State University did not adequately separate duties over the cashiering function for tuition and fee revenues.

Recommendation: Moorhead State University should implement control procedures to assure that all receipts posted to the student accounts receivable system are deposited. The cashiers duties should not include posting tuition or fee revenues to the MnSCU accounting system.

Response: We concur with this finding and have already taken corrective action. The MnSCU accounts receivable system, when implemented, will eliminate the double posting.

BOOKSTORE OPERATIONS

Finding: Moorhead State University did not have a systematic process to determine the administrative fee it charges it's bookstore.

Recommendations: MSU should have a written agreement with the bookstore which specifies the administrative fee assessed, what the fee is intended to represent, and how the fee collected will be spent (i.e. scholarships). In addition, the agreement should indicate how residual bookstore profits are to be used (i.e. debt, scholarships). MSU should work with the MnSCU system office to determine a reasonable amount that the bookstore should reimburse to the General Fund for space rental, maintenance expense and other support costs.

Response: We concur with this finding and will execute a written agreement with the bookstore detailing the amount of the fee assessed and how it is to be used. We will also work with the MnSCU system office to establish a reasonable amount to reimburse the General Fund for various costs.

Sincerely,



Roland Barden
President

cc: Laura King, Vice Chancellor for Finance
David Crockett, V.P. of Administrative Affairs
Verlee Thies