

Winona State University

Financial Audit

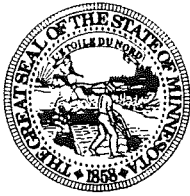
For the Period July 1, 1995, through December 31, 1996

July 1997

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-39



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Darrell Krueger, President
Winona State University

We have audited selected areas of Winona 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, purchased services and equipment, bookstore operations, health services, student union, and private grants. 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 Winona 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 Winona 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 July 18, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 25, 1997

Report Signed On: July 14, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Winona State University

Financial Audit

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

Public Release Date: July 18, 1997

No. 97-39

Background Information

Winona State University (WSU) is a public, liberal arts university in the southeast corner of Minnesota. WSU was founded on September 3, 1860, as the first college in the former system of state universities and the first teacher preparation institution west of the Mississippi River. The university has a satellite campus in Rochester. WSU is a member of the Minnesota State Colleges and Universities System (MnSCU), which began operations on July 1, 1995. Dr. Darrell W. Krueger is the current president of the 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, administrative expenditures, bookstore activities, student union activities, health service activities, and other grants for the period July 1, 1995, through December 31, 1996. We also audited the administration of selected federal student financial aid programs for the period from July 1, 1996, to December 31, 1996.

We concluded that Winona State University had a good system of internal control over its financial management practices and generally operated in compliance with management authorizations and applicable legal requirements for the items tested. The university had a sufficient process for developing its budget and monitoring its financial operations. However, the university did not adequately control security access to its computer systems. Also, the university did not comply with certain legal provisions concerning prompt depositing of receipts and tuition waivers.

The university designed internal controls to provide reasonable assurance that it managed student financial aid programs in compliance with general and specific program requirements. However, we found that Winona State University did not properly calculate the Perkins Loan repayment amounts.

Winona State University designed and implemented controls to provide reasonable assurance that bookstore, student union, and health service's financial activities were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations.

Winona State University responded to the audit report and indicated that it concurs with most of the audit recommendations. The university expressed concern, however, that the current requirements for registering tuition waiver students was "virtually unmanageable." It urged the MnSCU system office to provide WSU with a workable alternative.

Winona State University

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Financial Management	3
Chapter 3. Tuition, Fees, and Room and Board	7
Chapter 4. Payroll	11
Chapter 5. Administrative Expenditures	15
Chapter 6. Bookstore Operations	19
Chapter 7. Student Financial Aid	23
Chapter 8. Student Union	27
Chapter 9. Health Services	31
Chapter 10. Private Grants	35
Agency Response	37

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
David Polisen, CPA, CISA	Auditor-In-Charge
Fubara Dapper, CPA	Auditor
Susan O'Connell	Auditor
Scott Tjomsland	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Winona State University and the MnSCU system office at the exit conference held on June 27, 1997:

MnSCU System Office:

Laura King	Vice Chancellor - Chief Financial Officer
Alan Finlayson	Director of System Accounting

Winona State University:

Dr. Darrell Krueger	President
Jerry Varner	Business Manager
Scott Ellinghuysen	Financial Analyst
Joanne Lanik	Accounting Director

Chapter 1. Introduction

Winona State University (WSU) is a public, liberal arts university in the southeast corner of Minnesota. WSU was founded in 1858 as the first college in the former system of state universities and the first teacher preparation institution west of the Mississippi River. The university has a satellite campus in Rochester. The university provides more than 80 academic programs within its five colleges. Its mission is to serve the broad educational needs of the people of the region and others who are attracted to its various programs. Dr. Darrell W. Krueger is the current president of the university.

Winona State University is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operation on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education.

During the 1995-1996 school year, Winona State University's student population exceeded 7,000, including 500 students at its WSU-Rochester Center. Located on the campus of Rochester Community College, the center offers nearly 20 degree programs in undergraduate and graduate levels.

The university finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the system-wide appropriation to the individual universities based on a formula. The total of appropriations and local receipts establishes the spending authority for the university. Table 1-1 shows a summary of the university's sources and uses of funds for the fiscal year ended June 30, 1996.

**Table 1-1 - Summary of General Fund Activity
Fiscal Year Ended June 30, 1996**

Sources of Funds:	
Prior year carry forward	\$ 1,731,927
State appropriation	23,337,555
Tuition and fees	16,031,816
Other sources of funds	<u>429,332</u>
Total Sources	<u>\$41,530,630</u>
Uses of Funds:	
Employee payroll	\$31,203,248
Purchased services	1,292,010
Equipment purchases	1,130,374
Supplies	1,114,729
Student payroll	916,443
Utilities	865,637
Other uses of funds	<u>2,902,278</u>
Total Uses	<u>\$39,424,719</u>
Carry Forward Amount	<u>\$ 2,105,911</u>

Note: The carry forward amount includes an \$800,000 budgeted reserve balance (see Table 2-1).

Source: MnSCU General Ledger Accounting System.

This page intentionally left blank.

Chapter 2. Financial Management

Conclusions

Winona State University designed and implemented internal controls to provide reasonable assurance that:

- *Financial activities were properly recorded on the MnSCU and MAPS accounting systems.*
- *Money held in local bank accounts was adequately safeguarded and reported in the accounting records and in compliance with applicable legal provisions and management authorizations.*
- *The university operated within available financial resources and in compliance with applicable legal provisions and management authorizations.*

However, the university did not adequately restrict computer security clearances in several departments.

On July 1, 1995, the consolidated Minnesota State Colleges and Universities System (MnSCU) began operations. At that time, a new computerized accounting system, MnSCU accounting, as well as the State Colleges and Universities Personnel/Payroll System (SCUPPS) emerged. MnSCU required all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. Winona State University administered certain funds, such as financial aid, agency accounts, and enterprise activities in local bank accounts. The local bank account also served as the university's state depository and links to the state treasury.

The state of Minnesota also implemented a new computerized accounting system (MAPS) and a new personnel/payroll system (SEMA4) that began operations on July 1, 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses used the MnSCU accounting system to initiate transactions that involved appropriated funds. Through a system interface, the MnSCU accounting system fed these transactions to MAPS. MAPS then generated state treasury warrants for state-appropriated expenses.

Audit Objectives and Methodology

The primary objectives of our review of Winona State University's financial management were to answer the following questions:

Winona State University

- Did the university design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the university design and implement internal controls to provide reasonable assurance that monies in the local bank accounts were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations?
- Did the university design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management authorizations?

To answer these questions, we interviewed university personnel to gain an understanding of the MnSCU accounting system and the extent the university used the system for each of the individual program areas we audited. We also gained 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 bookstore activities that would impact on WSU's ability to properly record its financial activities in the MnSCU accounting system 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 WSU properly recorded revenue and expenditure transactions to the MnSCU accounting system 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. We also interviewed university personnel and reviewed security reports to determine that the university had adequately limited access to its computer system.

Budgetary Controls

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

Winona State University began its budget process in October for the upcoming fiscal year. The university determined the enrollment figures and the amount of revenue it would generate. It also determined any new initiatives for the upcoming year. The university submitted its projected revenues and expenditures for operations to the system office. The system office then calculated the allocation and informed the university of its amount. The university set up unique cost centers for each department or office to monitor the budget at that level. WSU budgeted a reserve balance into its overall allocation, which it reflects as part of its balance carry forward amount.

Winona State University

The university also built reserve balances into its other budgeted activities. Table 2-1 shows the various budgeted reserve balances as of June 30, 1996.

Table 2-1
Schedule of Budgeted Reserve Balances
as of June 30, 1996

<u>Account</u>	<u>Amount</u>
Operations	\$ 800,000
Bookstore	600,000
On campus residence halls	434,048
Student activities	328,000
Lourdes residence hall	278,944
Student union	180,648
Student health services	<u>141,000</u>
Total budgeted reserve balances	\$2,762,640

Source: Winona State University accounting records.

Investments

Winona State University invested idle cash from student activity accounts, bookstore funds, endowment funds, and other local accounts. It used several different options to maximize its cash flow, risk, and investment potential. It used a money market account to invest funds on a short-term basis. In fiscal year 1996, the university basically had one other investment option -- locally purchased certificates of deposit (CDs). However, effective July 1, 1996, the Legislature enacted legislation to allow the university to transfer money to the Minnesota State Board of Investment (SBI) for investment. As its CDs matured, the university has transferred the proceeds to SBI. As of December 31, 1996, the university had transferred \$1,800,000 to SBI. The university received monthly statements from the SBI to monitor its investments.

Conclusions

Winona State University designed and implemented internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. The university designed and implemented internal controls to provide reasonable assurance that money held in the local bank accounts was adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. The university designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources and in compliance with applicable legal provisions and management's authorization. However, as a result of our tests, we found some weaknesses in computer security access controls.

Winona State University

1. Winona State University did not adequately restrict certain computer security clearances.

Winona State University did not adequately restrict computer security clearances in several departments including the business office, financial aid office, and the bookstore.

Our review of security over the MnSCU accounting system and SCUPPS showed certain weaknesses. We found two employees in the business office that had access to both payroll and human resource transactions on SCUPPS. Access to SCUPPS transactions could permit the employees to make unauthorized personnel changes to SCUPPS and use those transactions to perform unauthorized payroll transactions. We also found that the accounts payable clerks in the business office had the authority to create purchase orders on MnSCU accounting. Although we found no instances of accounts payable clerks initiating purchases, this creates a potential problem for future transactions.

The financial aid office did not adequately control passwords to its computer system. The financial aid office used a computer system called SARA to package, award, and disburse financial aid to WSU students. The financial aid office used an in-house security system to control access to the system. However, the system did not require the users to periodically change their passwords. In addition, the financial aid office did not suspend student workers' logon IDs and passwords when they terminated their work assignments. The financial aid office permanently used four student worker logon IDs for all of its student workers. The financial aid office assigned new student workers one of the existing logon IDs without ever changing either the logon ID or the password. Consequently, even though students did not work in the financial aid office any longer, they still had access to the system.

The bookstore also did not adequately safeguard security access information on its point of sale system called PRISM. A file within the system contained each user logon ID, password, and the level of access assigned to the person for the different modules within the system. The system maintained the security information in the administrative menu, which made it accessible to anyone familiar with the computer system. We also noted that certain temporary employees had security level clearance that allowed them to override sales transactions, permitting them to change pricing information and cash register transactions.

Finally, the bookstore should control changes to security access for its own users on PRISM. Currently, the bookstore relies on the PRISM vendor to make changes to its security clearances.

Recommendation

- *The university should safeguard security access to computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.*

Chapter 3. Tuition, Fees, and Room and Board

Chapter Conclusions

Winona State University designed and implemented internal controls to provide reasonable assurance that tuition, fee, room and board revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations. However, we found that the university did not comply with applicable legal provisions concerning prompt depositing of receipts and tuition waivers.

WSU offers both undergraduate and graduate programs. Because of its location on Minnesota's, eastern border, WSU draws a significant portion of its student population from surrounding states, especially Wisconsin. Table 3-1 shows the number of students by residency that registered for classes during fiscal year 1996.

Table 3-1
Student Population by Residency
Fiscal Year 1996

Student Type	Minnesota <u>Resident</u>	Wisconsin <u>Resident</u>	<u>International</u>	<u>Other</u>
Undergraduate	4,735	1,902	261	933
Graduate	<u>1,119</u>	<u>213</u>	<u>14</u>	<u>65</u>
Total	<u>5,854</u>	<u>2,115</u>	<u>275</u>	<u>998</u>

Source: WSU student record system headcounts.

Audit Objectives and Methodology

The primary objectives of our review of tuition, fees, and room and board were as follows:

- Did WSU design and implement internal controls to provide reasonable assurance that tuition, fees, and room and board revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did WSU comply with applicable legal provisions for items tested?

To meet these objectives, we interviewed WSU employees to gain an understanding of controls over tuition, fees, and room and board. We reviewed student registration and accounts receivable records and MnSCU accounting records to determine if WSU charged students appropriate rates, collected earned revenue, and properly recorded revenue transactions in the

Winona State University

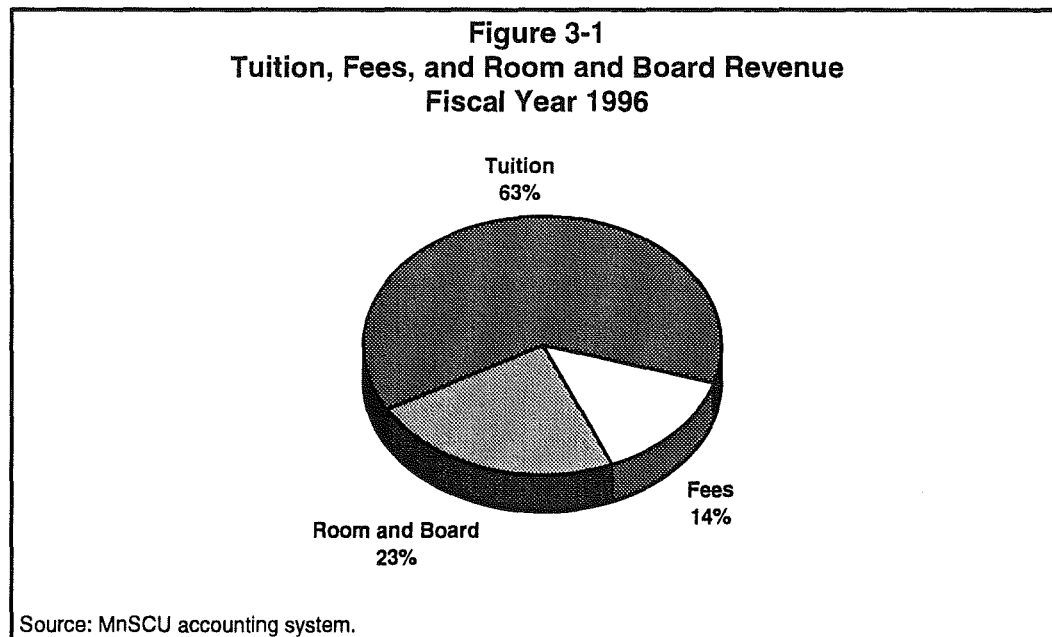
MnSCU accounting system. We also reviewed bank deposit documentation to determine if WSU complied with applicable legal provisions. Finally, we reviewed collection activity to determine if WSU appropriately followed up on accounts receivable.

Tuition, Fees, and Room and Board

For the 1996-97 school year, the resident tuition rate for undergraduate courses was \$51 per quarter credit plus miscellaneous fees. The resident rate for graduate courses was \$78.65 per quarter credit plus fees. WSU charged nonresident students \$115 and \$124.55 per quarter credit for undergraduate and graduate courses, respectively. Due to its reciprocity agreement with Minnesota, Wisconsin students paid \$48 and \$81 per quarter credit for undergraduate and graduate courses, respectively. For fiscal year 1997, WSU assessed students a two percent tuition surcharge in addition to the other fees.

WSU offered students several room and board options. WSU offered 12 different room plans based on room location, size, and number of roommates. WSU offered five different food plans based on the number of meals per week or total meals for the quarter. For the 1996-97 school year, room and board rates for various options ranged from \$727 to \$1,329 per quarter. The WSU dormitories and food service are part of MnSCU's system-wide Revenue Fund activity.

WSU collected approximately \$24 million in tuition, fees, and room and board during fiscal year 1996. WSU allowed students to make tuition, fees, and room and board payments at either the cashier's office at the Winona campus, or at the satellite campus in Rochester. Figure 3-1 shows the breakdown of the revenue by source.



Winona State University

Accounts Receivable

Winona State University required students to pay tuition, fees, and room and board charges by the 30th day after the first day of class. It assessed late fees to students who did not pay by the deadline. If a student did not drop classes within the university's three-day refund period, the university did not cancel the student's registration. Instead, WSU considered the tuition and fees earned and required the student to pay. Winona State University's policy of not canceling student registrations contributed to the accounts receivable balance.

WSU pursued past due accounts receivable by periodically mailing a bill to the student. WSU also placed holds on the students' records for outstanding balances that prevents them from registering in future quarters. If the students did not voluntarily pay, the university referred the accounts to either a collection agency or the state revenue recapture program. WSU contracted with several different collection agencies to pursue past due accounts on behalf of the university. With revenue recapture, the state can withhold an individual's income tax refund and use it to pay that individual's debt to a state agency. WSU submitted a quarterly report to the Department of Finance that documents its aged accounts receivable balance. Table 3-2 shows WSU's aged accounts receivable balance for tuition, fees, and room and board as of December 31, 1996.

Table 3-2
Aged Accounts Receivable Balance
As of December 31, 1996

<u>Charge Type</u>	<u>1-90 Days</u>	<u>91 Days - 1 Year</u>	<u>Over 1 Year</u>	<u>Total</u>
Tuition	\$156,098	\$143,498	\$335,018	\$ 634,614
Fees	14,915	9,439	264,920	289,274
Room and Board	<u>10,527</u>	<u>25,188</u>	<u>107,072</u>	<u>142,787</u>
Total	<u>\$181,540</u>	<u>\$178,125</u>	<u>\$707,010</u>	<u>\$1,066,675</u>

Note: Days represent the amount of times account receivables are past due.

Source: WSU's quarterly accounts receivable report filed with the Department of Finance .

Conclusions

We concluded that WSU designed and implemented internal controls to provide reasonable assurance that tuition, fees, and room and board revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. We found that, except for certain instances of noncompliance with prompt depositing requirements and tuition waivers, the university complied with applicable legal provisions. We also concluded that WSU has established adequate procedures to pursue outstanding accounts receivable. However, WSU did not write off old accounts receivable balances, as discussed in Finding 4.

Winona State University

2. Winona State University did not promptly deposit receipts at its Rochester Center.

WSU did not deposit receipts at its Rochester Center on a daily basis when they exceeded \$250. The Rochester Center's volume of receipts is low, compared to the Winona campus. The Rochester cashier collected the revenue and deposited the receipts into a local bank account. We found that the Rochester cashier only deposited Rochester Center receipts daily during busy collection periods. We found several deposits ranging from \$1,650 to \$29,413 that WSU made two to seven days after it received payments. However, Minnesota Statute 16A.275 states that all daily receipts exceeding \$250 must be deposited daily.

Recommendation

- *WSU should deposit receipts exceeding \$250 on a daily basis.*

3. PRIOR AUDIT FINDING NOT RESOLVED: WSU did not control senior citizen and employee tuition waiver registrations on a space availability basis.

WSU did not limit registrations by senior citizens and students with employee tuition waivers to courses on a space-available basis. Rather, WSU allowed these students to register with the general student population on a "first come, first served" basis. The various bargaining agreements covering university employees state that employees may enroll in courses only on a space-available basis. Also, Minnesota Statute Section 135A.52 states that senior citizens may take courses "in any state-supported institution of higher learning when space is available after all tuition-paying students have been accommodated." By allowing students with waivers to register with the general student population, WSU did not comply with the bargaining agreements and statutes that allow paying students to have registration priority.

Recommendation

- *WSU should control senior citizen and employee tuition waiver registrations on a space availability basis.*

4. WSU did not write off old uncollectible account balances.

WSU did not write off uncollectible accounts balances for several years. As shown in Table 3-2, the university had a \$700,000 accounts receivable balance as of December 31, 1996, that is more than one year old. Although WSU diligently followed up on past due accounts, it had limited resources to spend on collection activity. WSU also maintained smaller accounts with little or no chance of collection. By writing-off old uncollectible accounts, WSU could maximize its collection resources by focusing on accounts with the greatest collection potential.

Recommendation

- *WSU should work with the system office to remove old, uncollectible account balances from its records.*

Chapter 4. Payroll

Chapter Conclusions

Winona State University designed and implemented internal controls that provided reasonable assurance that employee and student payroll transactions were properly authorized and accurately reported in the accounting records. The university complied with statutory provisions and bargaining unit agreements for employee payroll. However, we noted in Finding 1 that, in certain cases, the university assigned users with incompatible clearances to the payroll system.

Payroll represents the largest expenditure for Winona State University. The university had employee payroll expenditures of \$34,047,800 for fiscal year 1996. WSU also paid \$2,465,424 in student payroll expenditures during fiscal year 1996.

Audit Objectives and Methodology

We focused our review of payroll expenditures on specific audit objectives related to the following questions:

- Did the university design internal controls to provide reasonable assurance that employee and student payroll expenditures were properly authorized and accurately reported in the accounting records?
- Did the university's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel process. We interviewed university employees to gain an understanding of the personnel and payroll accounting systems used by the university and observed the application of procedures used to process and reconcile payroll transactions. We reviewed the security level clearances for payroll and human resources personnel. We performed various detail tests of employee and student payroll transactions to support our conclusions. Finally, we reviewed release time assignments.

Employee Payroll Processing

During fiscal year 1996, the university paid 231 classified and 412 unclassified employees a total of \$34,047,800. The following organizations represent the university's employees:

- The Inter Faculty Organization (IFO)

Winona State University

- The Minnesota State University Association of Administrative and Service Faculty (MSUAASF)
- The Excluded Administrators Plan
- The American Federation of State, County and Municipal Employees (AFSCME)
- The Middle Management Association (MMA)
- The Minnesota Association of Professional Employees (MAPE)

During fiscal year 1996, the university used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. The university used the SCUPPS system to monitor and evaluate compensation paid to employees. It also used it to identify the different types of classification assignment codes pertaining to faculty appointments. PPS contained pay rate information and calculated the employee payroll amount. PPS also handled leave accruals for classified and unclassified employees. The college reconciled the employee time sheets to the leave report each pay period. The university maintained manual faculty leave accrual balances, because the biweekly leave report could not accommodate this type of leave accrual. The university converted to the state's new SEMA4 payroll system in September 1996.

The university maintained separate human resource and payroll sections to handle personnel and payroll transactions. Human resource staff input personnel transactions into SCUPPS. The payroll section recorded employee payroll data into the SEMA4 system. Table 4-1 shows the various types of employee compensation that comprised the overall payroll expenditures for fiscal year 1996.

Table 4-1
Payroll Expenditures
Fiscal Year 1996

Payroll Category	
Unclassified Employees	\$22,599,470
Classified Employees	8,008,172
Release Time (1)	2,139,034
Separation Pay (2)	727,115
Overload Assignments (3)	289,827
Other Compensation	227,593
Honorariums	56,588
Total	<u>\$34,047,800</u>

(1) Pay for time in lieu of classroom teaching (i.e., department chairmanships, program director activities, research, and coaching.

(2) Salary incentives for early retirements and other voluntary separations.

(3) Additional compensation for assignments beyond the contract maximum workload.

Source: The MnSCU accounting system and SCUPPS.

Winona State University

Student Payroll

The university employed students to perform various job duties throughout the campus. In fiscal year 1996, the university paid \$2,465,424 to students through three separate student payroll programs. The university participated in both the federal and state work-study programs. The federal and state governments provided the funding to the university for it to allocate to students based on financial need. The third program is a student help program that was not based on financial need. The university business office entered appointment and tax information into the student payroll system for later calculation of paychecks. Students completed bi-weekly timesheets that their supervisors signed and forwarded to the business office. The business office entered the timesheets into the student payroll system that printed the payroll checks. The business office subsequently distributed the payroll checks to the students.

Conclusions

Winona State University designed and implemented internal controls that provided reasonable assurance that employee and student payroll transactions were properly authorized and accurately reported in the accounting records. The university complied with statutory provisions and bargaining unit agreements for employee payroll. However, we noted in Finding 1, the university assigned certain users with incompatible clearances to payroll and personnel transactions.

This page intentionally left blank.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Winona State University designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management authorizations. However, we noted in finding 1 that the university assigned users with incompatible clearances in the purchasing and disbursing functions. Also, we found isolated problems with the purchasing practices of some departments.

In addition to payroll, WSU's administrative expenditures included payments for purchased services, equipment, supplies, and utilities. To purchase goods or services, university departments submitted an authorized purchase requisition to the purchasing department. The purchasing department verified that funds were available in the appropriate cost center for the purchase, encumbered the funds, created a purchase order, and sent it to the vendor. The business office received the invoice and matched it to the purchase requisition and purchase order. The business office sent a copy of the invoice to the department receiving the goods or services. The department verified the receipt of the goods or services and authorized the payment. Accounts payable clerks in the business office processed the payments on the MnSCU accounting system.

Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were as follows:

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

To meet these objectives, we interviewed WSU employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if WSU properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if WSU complied with applicable legal provisions. Finally, we reviewed WSU's process to record and track its fixed assets.

Winona State University

Purchased Services

WSU paid \$3,531,159 for purchased services during fiscal year 1996. Table 5-1 shows the university's purchased services expenditures by category.

Table 5-1
Summary of Purchased Services
For Fiscal Year 1996

<u>Purchased Service Category</u>	<u>Amount</u>
Contracted food service	\$1,719,472
Other purchased services (1)	1,183,788
Expense reimbursements (2)	557,531
Refuse removal	63,647
Security services	6,205
Building maintenance services	<u>516</u>
Total	<u>\$3,531,159</u>

(1) Includes the university's share of MnSCU computer system costs.

(2) Includes the university's payment to Rochester Community College for its portion of the Rochester Center space.

Source: MnSCU accounting reports.

Equipment

WSU paid \$1,904,545 for equipment during fiscal year 1996. According to WSU fixed asset records, it had \$13,423,059 (historical cost) worth of fixed assets as of December 31, 1996. WSU defined equipment as all machinery, vehicles, instruments, apparatuses, furniture, and other articles that met all of the following requirements:

- Had a unit cost of \$500 or more (\$1,000 beginning in fiscal year 1997),
- Had a useful life of more than one year, and
- Retained its identity for inventory purposes.

WSU's inventory department placed asset stickers on purchased equipment and recorded the fixed assets on State University Fixed Assets System. WSU periodically performed a physical inventory of fixed assets on the entire campus. As of March 1997, the university was just completing its latest physical count that began in November 1996.

Supplies

WSU paid \$1,877,888 for supplies during fiscal year 1996. WSU operated its own central stores for office and maintenance supplies. The university's central stores activity had unique cost centers that allowed WSU to use a charge-back system to charge users for supplies. WSU's central store also had a computerized inventory system to track inventory on hand. When a department needed supplies, it completed a central stores order form. After filling orders, WSU central stores staff forwarded the order forms to the business office. The business office input

Winona State University

the transactions into the MnSCU accounting system to reflect the transfer of goods. It transferred the expenditure from the central stores account to the cost center of the department that ordered the supplies.

Utilities

WSU paid \$1,074,856 for utilities during fiscal year 1996. Table 5-2 shows utility expenditures by category.

Table 5-2
Summary of Utilities
For Fiscal Year 1996

<u>Utility Category</u>	<u>Amount</u>
Electricity service	\$ 797,659
Water and sewer service	138,859
Natural gas service	91,417
Fuel oil service	38,834
Other utility services	<u>8,087</u>
Total	<u>\$1,074,856</u>

Source: MnSCU accounting system.

Conclusions

We concluded that WSU designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, we noted in Finding 1 that the university assigned accounts payable clerks with incompatible clearances to create purchase orders. We found that WSU recorded fixed assets on the State University Fixed Asset System and adequately controlled its fixed assets. We also concluded that, except as discussed in Finding 5, WSU complied with applicable legal provisions.

5. WSU incurred certain obligations before it verified the availability of the funds.

WSU incurred some obligations for supplies, purchased services, and equipment purchases before it verified the availability of the necessary funds. Some departments ordered goods or services on their own, then notified the purchasing department about the obligation. According to WSU's purchasing policies and procedures, a department must submit a purchase requisition to the purchasing department when it wishes to obtain goods or services. The purchasing department staff certified unencumbered balances, encumbered the funds, created purchase orders, and placed the orders. In addition, Minn. Stat. Section 16A.15, subd. 3, requires that there be sufficient funds in the accounting system before incurring obligations on any fund, allotment, or appropriation. The university's purchasing department identified instances where departments violated purchasing procedures, and it required the departments to submit written explanations for the violations before it paid the obligations. Furthermore, the business manager

Winona State University

indicated that the university could refuse to honor a purchase that had been initiated improperly. However, some departments continued to incur obligations without following proper procedures.

Recommendation

- *WSU should take action to limit departments from purchasing goods or services without first verifying the availability of the funds.*

Chapter 6. Bookstore Operations

Chapter Conclusions

Winona State University designed and implemented controls to provide reasonable assurance that bookstore revenue collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management authorizations. Bookstore expenditures were reasonable, properly authorized, and accurately recorded in the accounting records.

The Winona State University bookstore sold school materials and supplies. The products included textbooks, supplies, reading books, gifts, candy, greeting cards, and backpacks. Table 6-1 shows the bookstore's income statement for the year ended June 30, 1996.

Audit Objective and Methodology

We focused our audit of bookstore operations on the following objectives:

- Did the bookstore design and implement adequate procedures to ensure that revenues collected were complete, sufficiently safeguarded, and accurately recorded in the accounting records?
- Did the bookstore design and implement adequate procedures to ensure that disbursements were reasonable, properly authorized, and accurately recorded in the accounting records?
- Did the bookstore have internal controls to ensure that inventory is adequately safeguarded and accurately recorded in the accounting records?

To achieve these objectives, we interviewed bookstore staff to gain an understanding of the current controls relating to revenues and expenditures. We observed bookstore operations. We tested samples of revenue and expenditure transactions to determine that the university had adequate supporting documentation and accurately recorded the transactions in the accounting records. We reviewed computer security for access to the bookstore system.

The bookstore used a point of sale computer system called PRISM to record customer purchases. PRISM stored pricing information in the computer system and used bar-code scanners to match the price of the goods sold to the price in the system. The software system recorded the sale by type for later reconciliation. Each day, bookstore staff reconciled receipts to system reports. The system reports broke out the total transactions by the classifications of goods sold, i.e., books, health and beauty aids, food and beverages, clothing, and supplies. PRISM printed a report that

Winona State University

reflected any changes to the price charged on goods for resale which the bookstore staff reviewed.

Table 6-1
Bookstore Income Statement
Fiscal Year 1996

Sales		\$2,361,419
Cost of Goods Sold		
Beginning Inventory (1)	510,600	
Purchases	<u>1,673,950</u>	
Goods Available for Sale	2,184,550	
Less: Ending Inventory (1)	<u>480,628</u>	
Total Cost of Goods Sold		<u>1,703,923</u>
Gross Margin		657,496
Operating Expenses		
Salaries	\$322,669	
Rent (2)	64,214	
Fixture Depreciation (3)	16,107	
Postage and Telephone	1,180	
Services	33,275	
Advertising	1,773	
Supplies	14,573	
Travel	2,557	
Insurance	650	
Equipment	<u>2,628</u>	
Total Operating Expenses		<u>459,627</u>
Income from Operations		197,870
Other Revenue	44,724	
Other Expenses (4)	232,265	<u>(187,541)</u>
Net Income		<u>\$10,329</u>

(1) We did not verify either the beginning or ending inventory balances.

(2) The bookstore pays rent to its landlord, the WSU student union.

(3) Includes \$260 in depreciation on assets from the discontinued Rochester Center bookstore.

(4) Includes \$217,500 in scholarships to WSU students, which are not direct expenses of the bookstore.

Source: Winona State University prepared financial statement

During fiscal year 1996, the bookstore purchased \$1,673,950 worth of items for resale. It also incurred operating expenses of \$459,627 as noted in Table 6-1. The bookstore's largest inventory purchases were text books. The faculty decided which books to use for teaching and placed the orders through the bookstore. Through the PRISM software, the bookstore buyers were able to connect with their major book supplier electronically and placed book orders on-line. The bookstore staff entered its bookstore purchases onto the PRISM system. Although PRISM could record and update a perpetual inventory system, the bookstore historically did not use that feature. The bookstore plans to implement the inventory process within PRISM by June 30, 1997.

The university used much of the bookstore's profits to award scholarships to WSU students. In fiscal year 1996, the university awarded \$217,500 to university students in the form of presidential scholarships.

Winona State University

Conclusions

WSU designed and implemented controls to ensure that bookstore revenues were adequately safeguarded. Our testing of transactions assured us that the revenues were accurately recorded in the accounting records. However, we found that computer security was not adequate. The PRISM system permits the assignment of security levels to employees who need access to the different system functions. Finding 1 discusses a weakness in PRISM security.

This page intentionally left blank.

Chapter 7. Student Financial Aid

Chapter Conclusions

We audited Winona State University's controls over the packaging, awarding, and disbursing of financial aid as of December 1996. We also reviewed the cash management and reporting process for the federal financial aid programs. The university designed internal controls to provide reasonable assurance that it managed student financial aid programs in compliance with general and specific program requirements. However, we found that Winona State University did not properly calculate the Perkins Loan repayment amounts.

Winona State University participates in the following student financial aid programs administered by the U.S. Department of Education and the state of Minnesota:

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

We reviewed the Federal Pell Grant Program, Federal Perkins Loan Program, and Federal Family Education Loan (FFEL) Program. We considered these programs to be the major federal programs for audit purposes. Figure 7-1 shows financial aid expenditures by program for fiscal year 1996.

Audit Objectives and Methodology

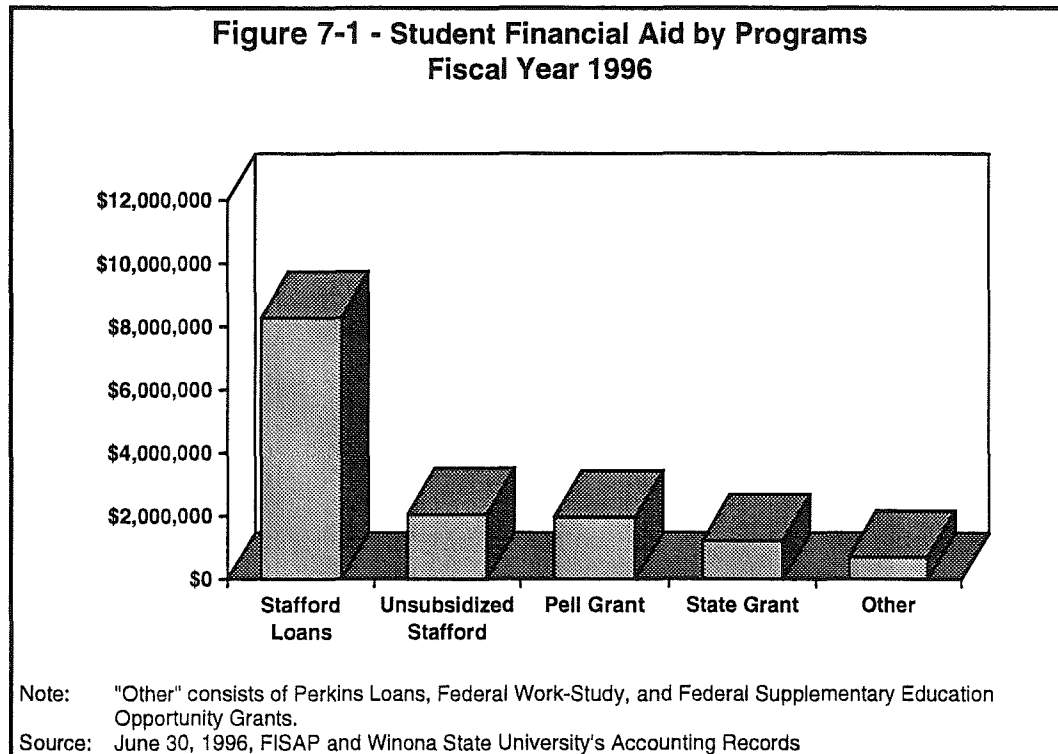
The primary objectives of our audit were to answer the following questions related to financial aid programs as of December 1996:

- Did the university design and implement internal controls to provide reasonable assurance that financial aid disbursements were properly authorized for eligible students and accurately reported in the accounting records?

Winona State University

- Did the university comply with applicable legal requirements over the management of cash and timely and accurate reporting of its federal financial aid activity?

To address these questions, 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 federal cash and reporting federal expenditures.



Students completed an application for financial aid and submitted it to a federal central processing unit. The university received the information for the students that applied for enrollment. Winona State University used a packaging software system called SARA to package, award, and disburse student financial aid.

Students generally received the Federal Pell Grant as the first source of assistance. The federal government did not limit Pell Grant awards to the university; all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 1996-97 award year equaled \$2,470. A federal central processing system determined each student's Pell Grant award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

Under the Federal Family Education Loan (FFEL) Program, private lenders provided the loan principal to eligible students while the federal government guaranteed the loan. For Federal Stafford Loans, the federal government paid interest to the lender while the student attended school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrued from the date of origination and the borrower assumed

Winona State University

responsibility for the interest. First year students could borrow up to \$2,625 per year under the Federal Subsidized and Unsubsidized Stafford Student Loan programs. Second year students could borrow up to an additional \$3,500. Students with more than two years of schooling could borrow up to \$5,500 each year.

The university awarded Federal Perkins Loans to students that demonstrated exceptional financial need. The university gave priority to Federal Pell Grant recipients with the most need. The interest rate of five percent began to accrue six to nine months after the student ceased his/her education, but the student could defer the repayment for up to three years because of service in the Armed Forces or Peace Corps. Additionally, some students had all or part of their loan canceled based on their area of study. The promissory note that the student signed prior to receiving the loan proceeds explained all of these terms and options.

Minnesota residents that demonstrated financial need could receive a Minnesota State Grant. The state made the awards to undergraduate students attending schools in Minnesota, who did not exceed the equivalent of 12 full-time quarters of attendance. Awards ranged from \$300 to \$3,500 per academic year.

Conclusions

We found the university had designed internal controls to provide reasonable assurance that fiscal year 1997 financial aid transactions were authorized and properly recorded. In addition, the university complied with federal student financial aid general requirements over cash management and federal reporting. However, we noted one issue concerning the Perkins Loan repayment calculation.

6. PRIOR FINDING NOT RESOLVED: Winona State University improperly calculated Perkins loan repayment amounts.

Winona State University did not properly calculate Perkins loan repayment amounts according to federal regulations. Federal regulations stated that "...the borrower shall repay the loan in equal quarterly, bimonthly, or monthly amounts as the institution chooses." However, Winona State University calculated the repayment amount on a fixed principal plus interest basis. This resulted in unequal payments, which decreased over the life of the loan and accelerated the principal portion due. Federal regulations allowed an accelerated payment plan, but the student must request it and the federal government must approve it. Institutions do not have the authority to impose these accelerated payment plans on students.

Recommendation

- *Winona State University should calculate Perkins loan payments in equal installments, unless a student requests and the federal government approves an accelerated repayment plan.*

This page intentionally left blank.

Chapter 8. Student Union

Chapter Conclusions

Generally, Winona State University designed and implemented internal controls to provide reasonable assurance that student union revenues were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations. However, we noted one weakness concerning vending machine commission revenue.

We concluded that Winona State University designed and implemented internal controls to provide reasonable assurance that student union expenditures were accurately reported in the accounting records, adequately safeguarded, and approved by management.

Winona State University operated a student union to provide students with activities such as bowling, pool, ping-pong, video games, vending machines, and check cashing. The student union employed three full-time employees and also several student workers. The WSU student union is a part of MnSCU's system-wide Revenue Fund activity.

Audit Objectives and Methodology

Our review of Winona State University's student union focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that student union revenues were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations?
- Did WSU design and implement internal controls to provide reasonable assurance that student union expenditures were accurately reported in the accounting records, adequately safeguarded, and properly authorized by management?

To answer these questions, we interviewed university employees to gain an understanding of the controls over the student union activities. We reviewed daily cash records and MnSCU accounting records to determine if WSU collected earned revenue and properly recorded revenue transactions to MnSCU accounting. We reviewed student union expenditures to determine if WSU properly authorized, processed, and recorded the expenditures. We also determined the reasonableness of the expenditures.

Winona State University

The student union received its funding primarily from two sources -- a facility fee allocation and student union operation revenues, including vending commissions and fees charged to students for certain activities. WSU assessed students a student union facility fee to fund the student union. In fiscal year 1996, the students paid \$3.50 per credit up to a maximum of 16 credits or \$56 per quarter. The university collected the fee as part of the tuition collection process and transferred the money to the MnSCU central office. In fiscal year 1996, the university collected \$853,066 in facility fees from the students.

The student union supplemented its allocation by charging students for certain activities, such as bowling, pool, ping-pong, video games, vending machines, and check cashing. The university contracted with local vending machine companies to provide vending services to the student union for video and pinball games, beverages, and snacks. The vendor provided the machines, serviced them, collected the revenue, and paid the university an agreed-upon commission, generally a percentage of total sales. The student union also received commission income from the company that operates the snack bar.

Table 8-1 shows the amount of revenue generated by the student union.

Table 8-1
Summary of Student Union Collections
Fiscal Year 1996

<u>Description</u>	<u>Amount</u>
Facility fees	\$853,066
Snack bar commissions	80,306
Space rental	68,865
Vending machine commissions	20,169
Bowling receipts	9,303
Billiard receipts	7,524
Check cashing fee	1,130
Other receipts	<u>500</u>
Total Revenue	<u>\$1,040,863</u>

Note: WSU sent this entire revenue amount to the MnSCU system office, which reallocated it to universities system-wide.

Source: MnSCU accounting records

The university collected the facility fees, commissions, and operating revenues and transferred the entire amounts to the system office. MnSCU then used an allocation formula to reallocate the funds to the campuses for its operations. For fiscal year 1996, MnSCU allocated WSU \$583,700 for its operations. The student union spent about \$565,500 on its operations. WSU requested the funds as it incurred operating costs. Its operating costs consisted of payroll, office supplies, employee reimbursements, maintenance, and other miscellaneous costs.

MnSCU allowed WSU to retain the excess of its allocation over its expenditures for the student union. This residual amount increased the university's student union reserve balance (see Table 2-1 for a schedule of the university's reserve balances as of June 30, 1996).

Winona State University

Conclusions

We concluded, that except for Finding 7, Winona State University designed and implemented 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 concluded that Winona State University designed and implemented internal controls to provide reasonable assurance that student union expenditures were accurately reported in the accounting records, adequately safeguarded, and approved by management.

7. The student union did not request certain vending commission money in a timely manner.

The student union did not receive its commission revenue from one of its game room vendors in a timely manner. A review of student union records showed that the university did not receive its commission money from two to six months after it could have received it. The process used by the student union to receive its commission income contributed to the delay. The vendor came to the student union, counted the money from the machines, and gave the student union a receipt for the amount collected. The student union employee accumulated the receipts, prepared an invoice, and submitted it to the vendor for its share. However, the student union did not submit the invoice to the vendor timely. The vendor remitted the student union's commission share to university which it deposited into the student union account.

The delay in requesting the commission income increases the risk that the university would not receive all of its commission income. If the university lost a receipt or the company went out of business, the university might not receive all of its commission income.

Recommendation

- *Winona State University should improve its procedures for receiving commission income.*

This page intentionally left blank.

Chapter 9. Health Services

Chapter Conclusions

Winona State University designed and implemented internal controls to provide reasonable assurance that health service revenues were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. We also concluded that Winona State University designed and implemented internal controls to provide reasonable assurance that health service expenditures were accurately reported in the accounting records, adequately safeguarded, health care related, and approved by management.

Winona State University provided health services to university students. WSU staffed the health services clinic with physicians from the local medical clinic, registered nurses, a medical technologist, a dietitian/nutritionist, and a medical records clerk. The clinic also used student workers to provide miscellaneous office functions. The clinic provided students with medical examinations, laboratory services, allergy injections, prescription medications, and other health and counseling services.

Table 9-1 shows the financial activity for fiscal year 1996. Health services used its reserve balance to cover the deficit.

Table 9-1
Health Services Financial Activity
Fiscal Years 1996

<u>Revenues:</u>	<u>FY 1996</u>
Student fee allocation	\$345,500
Interest income	6,640
Fee for services	<u>46,733</u>
Total Revenues	\$398,873
Expenditures	\$419,339
Deficit	(\$ 20,466)

Source: WSU cost center report.

Winona State University

Audit Objectives and Methodology

Our review of Winona State University's health service's activity focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that health service revenues were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management authorizations?
- Did WSU design and implement internal controls to provide reasonable assurance that health service expenditures were accurately reported in the accounting records, adequately safeguarded, properly authorized by management, and consistent with health care operations?

To answer these questions, we interviewed university employees to gain an understanding of the controls over the health service activities. We reviewed billing records and MnSCU accounting records to determine if WSU charged students appropriate service fee rates, collected earned revenue, and properly recorded revenue transactions to the MnSCU accounting system. We reviewed health service expenditures to determine if WSU properly authorized, processed, and recorded the expenditures.

Revenue

Health services received its funding primarily from two sources -- student fee allocation and fees charged to students for certain services. WSU assessed students an activity fee to fund various student activities at the university including health services. The students paid \$5.40 per credit up to a maximum of 16 credits or \$64.80 per quarter. The university established a student fee management committee comprised of both students and administrative staff to allocate the funds among the various student activity groups. For the school year 1995-1996, health services received \$345,500 to help fund its operations. Health services also received \$6,640 from interest earned on its fund balance.

Health services supplemented its student fee allocation by charging students for certain services. It charged students for services such as medical services, medications, laboratory work, and allergy injections. In fiscal year 1996, health services earned \$46,733 from the various charges. Health services billed the students for the services and the WSU cashier collected the payments from the students and credited health services for those payments.

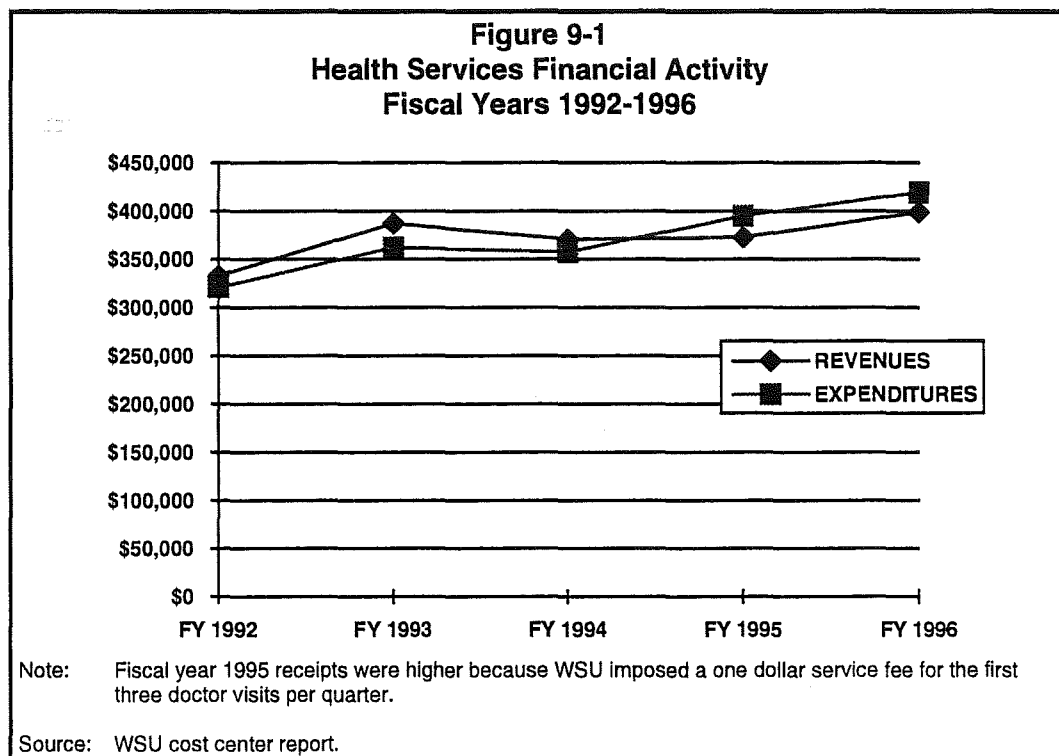
Expenditures

Health services incurred expenditures such as payroll, office supplies, employee reimbursements, and other miscellaneous costs. It also incurred medical specific costs such as physician fees, medical supplies, and medications. Health services had a long standing contract with a local clinic to provide medical services to the students that included physician costs. The current two-year contract expires June 30, 1997 and limits the service charges to \$188,500. In an effort to

Winona State University

reduce costs and provide more services to the students, WSU restructured the contract for fiscal year 1998. WSU anticipates reducing the physician hours and utilizing more nurse practitioner and registered nurse hours. WSU believes the change will reduce costs and provide more hours of services to the students. Health services also purchased medical supplies, medications, and services from various medical vendors.

Figure 9-1 shows the five-year history of financial activity. In fiscal years 1995 and 1996, the expenditures exceeded revenues by about \$20,000 each year. The university used its health service's reserve to cover the deficits.



Conclusions

Winona State University designed and implemented 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 concluded that Winona State University designed and implemented internal controls to provide reasonable assurance that health service expenditures were accurately reported in the accounting records, adequately safeguarded, health care related, and approved by management.

This page intentionally left blank.

Chapter 10. Private Grants

Chapter Conclusions

We found that Winona State University 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 Winona State University expended its private grants in compliance with the provisions of the grant. Finally, we found that Winona State University had an appropriate operating relationship with its foundation.

WSU received approximately \$1.3 million in private grants during fiscal year 1996. WSU received private grants from various organizations, including its foundation, for student scholarships. The university also received local scholarships or grants that specified the student or students to receive the scholarship. In other cases, grantors specified criteria for students to qualify for a scholarship, and WSU selected the students.

WSU also received private grants from organizations for research, specific projects, or in return for services it performed. The most significant of these was a grant agreement with International Business Machines Corporation (IBM) for software testing. WSU staff and students test IBM software in return for an agreed-upon fee. For these and other similar grants, the university accumulated excess funds, including interest earned on those funds. As of December 31, 1996, WSU reported about \$371,000 in excess funds in the private grant accounts. WSU had not yet determined how to use this balance.

Winona State University and the Winona State University Foundation entered into an agreement that established the responsibilities of each organization. The foundation existed to provide scholarship money to students attending the university. Although the university provided administrative support to the foundation, it did not participate in the foundation's decision-making process. In addition, the foundation underwent an independent audit for the year ended June 30, 1996. According to the audit report, the Winona State University Foundation had total revenues of \$1,523,713 and total expenses of \$648,317. According to its audited financial statements, the foundation had an ending fund balance of \$4,631,876 as of June 30, 1996.

Winona State University

Audit Objectives and Methodology

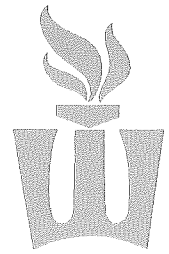
Our review of private grants focused on the following questions:

- Did Winona 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?
- Did Winona State University have an appropriate operating relationship with its foundation?

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

Conclusions

We found that Winona State 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 Winona State University expended its private grants in compliance with the provisions of the grant. Finally, we found that Winona State University had an appropriate operating relationship with its foundation.



July 9, 1997

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

Dear Mr. Nobles,

I would like to take the time 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 the financial management at our university. Our responses appear beneath each finding as follows:

1. Winona State University did not adequately restrict certain computer security access.

Response: We concur. Within the MnSCU accounting system individual user profiles have been changed to provide for a more effective separation of duties. SARA system security has been updated to eliminate old users and passwords. Bookstore personnel will be working with the Nebraska Book Company to update the PRISM security system.

Responsible Person: Scott Ellinghuysen, Greg Peterson, and Karen Krause
Completion Date: August 1997

2. Winona State University did not promptly deposit receipts at its Rochester Center.

Response: We concur. Steps have been taken to ensure the deposit of receipts on a daily basis.

Responsible Person: Russ Lohmann and Dave Thorn
Completion Date: July 1, 1997

3. Winona State University did not control senior citizen and employee tuition waiver registrations on a space availability basis.

Response: Space availability by class, as prescribed in the bargaining unit contracts is virtually unmanageable. WSU urges MnSCU system office to review language and provide for an alternative which allows the University to manage the waiver process on a larger, University-wide scale versus class by class monitoring.

Responsible Person: MnSCU System Office and Stewart Shaw

Completion Date: End of negotiations, possibly Fall 1997

4. Winona State University did not write off old uncollectable account balances.

Response: MnSCU system office is developing a policy to allow for the write off of uncollectable account balances.

Responsible Person: MnSCU System Office and Dave Thorn

Completion Date: Fall 1997

5. Winona State University incurred certain obligations before it verified the availability of the funds.

Response: We concur. Policies and procedures are in place which allow for timely follow up from the Business Office to the department which incurred the obligation. In certain situations individuals have been notified that the obligation is not a University obligation, but rather a personal obligation.

Responsible Person: Sandy Schmitt

Completion Date: July 1, 1997

6. Winona State University improperly calculated Perkins loan repayment amounts.

Response: MnSCU System Office will be developing a computer module that will accurately calculate the Perkins Loan repayment amounts. Module should be in place during fiscal year 1998.

Responsible Person: MnSCU System Office and Dave Thorn

Completion Date: Winter/Spring 1998

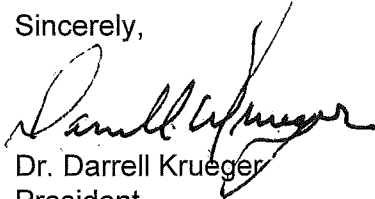
7. The Student Union did not request certain vending commission money on a timely manner.

Response: We concur. Vending company has been contacted and will send check to WSU immediately following reconciliation.

Responsible Person: Joe Reed

Completion Date: July 1, 1997

Sincerely,

A handwritten signature in cursive script, appearing to read "Darrell Krueger".

Dr. Darrell Krueger
President
Winona State University