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# **Bemidji State University**

## **Financial Audit**

**For the Three Fiscal Years Ended June 30, 1998**

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**September 1999**

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

**99-47**

# SUMMARY

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## **Bemidji State University**

### **Financial Audit**

### **For the Three Fiscal Years Ended June 30, 1998**

Public Release Date: September 3, 1999

No. 99-47

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#### **Background Information**

Bemidji State University was established in 1919 and is located in north central Minnesota. The university offers majors in more than 50 baccalaureate fields of study as well as master of arts and master of science degrees. Dr. M. James Bensen is the president of Bemidji State University.

#### **Audit Areas and Conclusions**

The audit scope included general financial management; tuition, fees, and room and board revenue; employee and student payroll expenditures; and supplies, equipment, and services expenditures. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 1999.

Bemidji State University designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources. However, we found that the university did not fully and timely reconcile local and state treasury transactions, and did not adequately restrict computer access in several areas. Also, the university needs to clarify the operating relationship with its foundation.

Bemidji State University 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 legal provisions. However, the university did not adequately separate duties over the collecting and recording of revenue.

The university designed and implemented internal controls to provide reasonable assurance that payroll and other expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions. In addition, student financial aid transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with federal regulations. However, the university did not adequately separate some financial aid duties and did not assign uncollectible Federal Perkins loans.

Bemidji State University responded positively to the six audit findings presented in the report. In addition, the university has already taken significant action towards resolving the findings.



STATE OF MINNESOTA  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

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Mr. Morris J. Anderson, Chancellor  
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. M. James Bensen, President  
Bemidji State University

We have audited Bemidji State University for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included general financial management; tuition, fees, and room and board revenue; employee and student payroll expenditures; and supplies, equipment, and services expenditures. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 1999.

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. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Bemidji State University complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of Bemidji State 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 and the management of Bemidji State University. This restriction is not intended to limit the distribution of this report which was released as a public document on September 3, 1999.

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 18, 1999

Report Signed On: August 31, 1999

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### **Audit Participation**

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Connie Stein	Auditor
Mike Byzewski	Auditor

### **Exit Conference**

We discussed the results of the audit with the following representatives of the MnSCU system office and Bemidji State University at an exit conference held on August 24, 1999:

#### **MnSCU System Office:**

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Andrew Boss	Board Trustee
Deb Winter	Director of Campus Accounting
John Asmussen	Executive Director, Internal Audit
Kim McLaughlin	Regional Audit Coordinator

#### **Bemidji State University:**

M. James Bensen	President
Tom Faecke	Vice President for Administrative Affairs
Gerald Amble	Business Manager
Jerry Winans	Director of Accounting

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## **Chapter 1. Introduction**

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Bemidji State University was established in 1919 and is located in north central Minnesota. The university offers majors in over 50 baccalaureate fields of study as well as master of arts and master of science degrees. Some of its degree programs and research activities are unique in the state.

The university was under the jurisdiction of the State University Board until the Minnesota State Colleges and Universities (MnSCU) began operations on July 1, 1995. Dr. M. James Bensen is the president of Bemidji State University.

Bemidji State 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 colleges and universities based on a formula. Table 1-1 provides a summary of the university's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for the fiscal year ended June 30, 1998.

**Table 1-1**  
**Sources and Uses of Funds**  
**Fiscal Year Ended June 30, 1998**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Funds</u>
July 1, 1997 Fund Balance	\$ 3,066,898	\$196,825	\$5,957,426
State Appropriation	19,868,885	0	0
<b>Revenues:</b>			
Tuition and Fees	11,315,515	917,454	735,354
Room and Board	0	0	4,001,845
Grants	1,136,184	4,592,758	0
Perkins Loan Repayments	0	0	829,621
Other	1,048,634	141,689	1,220,933
Transfers In	<u>71,737</u>	<u>0</u>	<u>0</u>
Subtotal Revenues	\$13,572,070	\$5,651,901	\$ 6,787,753
 Total Resources	 <u>\$36,507,853</u>	 <u>\$5,848,726</u>	 <u>\$12,745,179</u>
<b>Expenditures:</b>			
Employee Payroll	22,630,702	814,748	1,615,327
Student Payroll	960,143	554,634	116,874
Financial Aid	278,172	3,394,402	860,138
Supplies/Materials	1,574,198	119,922	396,661
Equipment	1,059,889	19,970	8,955
Purchased Services	976,295	134,683	2,308,005
Repairs	398,582	3,889	480,334
Utilities	684,862	0	396,699
Other	3,400,162	596,373	881,018
Transfers Out	<u>71,846</u>	<u>3,513</u>	<u>10,285</u>
Total Expenditures	<u>\$32,034,851</u>	<u>\$5,642,134</u>	<u>\$7,074,296</u>
 June 30, 1998 Fund Balance	 <u>\$ 4,473,002</u>	 <u>\$ 206,592</u>	 <u>\$5,670,883</u>

Note 1: An additional \$5.2 million was expended on the Capital Projects Fund from July 1, 1995, to June 30, 1998.

Note 2: Table 1-1 financial balances were derived from MnSCU accounting. Also, this table does not show agency fund financial activities (held in a custodial capacity).

Note 3: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. Compensated absences as of June 30, 1998, were estimated at \$3.2 million. Also, the liability for 1998 contract increases paid to faculty and administrators for contracts settled during fiscal year 1999 is estimated at \$486,000.

Note 4: The university indicated that approximately \$3.5 million of the June 30, 1998, General Fund balance is reserved for salary settlements, departmental carryforward, deferred maintenance, library equipment and book relocation, and tuition shortfalls.

Source: MnSCU General Ledger Accounting System as of December 31, 1998.

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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*Bemidji State University designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorizations. For the items tested, Bemidji State University complied with applicable legal provisions regarding local bank accounts. However, the university did not fully reconcile its local bank account to MnSCU accounting and did not reconcile transactions on the MnSCU and MAPS accounting systems timely. We also noted that the university did not adequately restrict computer access in several areas. Finally, the university needs to clarify its operating relationship with its foundation.*

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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) were implemented. MnSCU required all campuses to use the MnSCU accounting system to account for money maintained in the state treasury and in local bank accounts maintained outside the state treasury. Bemidji State University administered certain funds, such as financial aid, agency accounts, and enterprise activities in a local bank account. This account also served as the state depository for the transfer of funds into the state treasury.

The State of Minnesota also implemented new computerized financial and personnel/payroll systems in 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. The university used the MnSCU accounting system to initiate transactions that involved appropriated funds. Through a system interface, the MnSCU accounting system updates these transactions into MAPS, which generates state treasury warrants for state-appropriated expenses. Similarly, the State Employee Management (SEMA4) system is used to generate warrants initiated in the university's SCUPPS subsystem.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Bemidji State University and all other MnSCU campuses based on an allocation formula. Bemidji State University, like all other MnSCU institutions, retains its tuition and other dedicated revenues to arrive at total resources available for operations and spending.

Once the university determines its authorized spending level, it allocates spending budgets for various academic departments and administrative areas. The university establishes individual cost centers for each department or office to monitor its budget status. University management also monitors projected versus actual student enrollment to ensure sufficient tuition revenues are generated to support the spending budget.

## **Bemidji State University**

Bemidji State University is affiliated with the Bemidji State University Foundation, a non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. Bemidji State University provided administrative support to the foundation and the foundation provided scholarships to the university's students. The foundation prepares annual financial statements, which are audited by a CPA firm.

On May 11, 1999, while conducting our fieldwork, university personnel notified us that a theft of recreation fees (nonstudent fees) was discovered. In addition, the university also notified the Chancellor's Office, the Attorney General's Office, MnSCU Office of Internal Audit, and the Bemidji Police Department. At that time, the MnSCU Office of Internal Audit investigated the theft. The outcome of this case is still pending, although charges of embezzlement were filed against a former university employee.

### **Audit Objectives and Methodology**

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

- 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 comply with applicable legal provisions regarding local bank accounts?
- Did the institution design and implement internal controls to provide reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization?
- Did the institution design and implement internal controls to provide reasonable assurance that it had an appropriate operating relationship with related organizations?

To address these questions, we interviewed university personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. We analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the university properly recorded its state treasury and local bank activities. We also reviewed local bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency. We reviewed security privileges to determine whether the university had adequately restricted access to its computerized business systems. Finally, we reviewed the relationship between the university and the foundation.



# Bemidji State University

## Conclusions

Bemidji State University designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorizations. For the items tested, Bemidji State University complied with applicable legal provisions regarding local bank accounts. However, as explained in Finding 1, the university did not fully reconcile its local bank account to MnSCU accounting and did not reconcile transactions on the MnSCU and MAPS accounting systems timely. We also noted in Finding 2, that the university did not adequately restrict computer access in several areas. Finally, as explained in Finding 3, the university needs to clarify its operating relationship with the Bemidji State University Foundation.

### **1. Bemidji State University did not fully verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in the local bank account and the state treasury.**

Bemidji State University has been unable to reconcile MnSCU accounting with local bank activity since July 1997. The university attempted the reconciliation each month but had been unsuccessful due to the complexities involved with combining bank accounts and converting to new business systems. Reconciliation of the local bank activity provides an important assurance that the accounting records agree with bank cash inflows and outflows, and that no monetary errors or irregularities occurred. Without timely reconciliations, the risk of inaccurate or misleading financial information is increased.

In addition, the university did not reconcile state treasury cash, revenues, and expenditures to MnSCU accounting monthly. The university completed periodic reconciliations of activity posted to MnSCU accounting and the state's accounting system (MAPS). However, the university did not complete these reconciliations each month. In addition, there were small unidentified reconciling items for some of the funds. Untimely reconciliations increase the risk that the university posted inaccurate transactions in the accounting system, or that university staff will not detect state treasury errors timely.

#### *Recommendation*

- *Bemidji State University should complete state treasury and local bank account reconciliations on a timely basis to ensure the accuracy of MnSCU and MAPS accounting transactions and balances.*

### **2. Bemidji State University did not adequately restrict certain employee computer access privileges.**

Bemidji State University did not adequately administer and control access to its computerized business systems, including MnSCU accounting, procurement, and accounts receivable. The campus works with security administrators from its regional data center to administer access privileges for university employees. The university has the primary authority and responsibility to ensure employee access is necessary based on job responsibilities. Our review of employee computer access privileges disclosed the following concerns:

## Bemidji State University

- Student workers in accounting services used other employees' security clearances to enter transactions into MnSCU accounting until they received their own clearance. Sharing clearances decreases the ability to track transactions to the person who entered the transactions. Sharing clearances may also result in employees having more access than necessary to perform their job functions.
- The cashiers have access to enter receipts, change receivables, and perform invoicing. Other accounting staff have access to the cash receipt functions even though these employees do not perform these functions. The director of accounting and two account clerks have full access to the accounts receivable module. This access allows the employees to change tuition and fee rates; enter waivers, deferments, and residency codes; and perform cashiering and other accounts receivable functions. The system designers established some security groups that contained incompatible duties within a group. Attempting to give an employee access to specific screens within a group resulted in incompatible access since security is established at the group level.
- Two financial aid office staff had access to portions of the accounts receivable module that gave them access to perform functions which did not appear to be consistent with their job functions.
- Finally, the university did not adequately monitor computer security clearances. We found that one MnSCU system office employee, who previously provided support for the purchasing control system, continued to have access to the university's purchasing groups one year after changing job responsibilities. We also found an employee of another university who had access to the university's purchasing groups. The university told us this employee did not provide support for its systems and was unsure why this employee had access to its data. The university needs to closely monitor access privileges to ensure that users are only assigned access rights needed to perform their job.

### *Recommendations*

- *Bemidji State University should improve controls by restricting access to its business systems based upon job responsibilities, promptly canceling access for terminated and transferred employees, and periodically reviewing system user security reports and modifying any inappropriate system access privileges.*
- *Bemidji State University should work with the MnSCU system office to redesign security groups that contain incompatible functions.*

### **3. Bemidji State University's relationship with its affiliated foundation may not conform to the MnSCU policy on foundation relationships.**

Bemidji State University created an operating relationship with the Bemidji State University Foundation which may not conform to the MnSCU policy on foundation relationships. The university employs the foundation executive director. We believe the university assumes a significant managerial decision-making role for the foundation by employing the foundation's

## **Bemidji State University**

executive director. The executive director authorized purchases, signed checks, and handled the day-to-day management of the foundation. MnSCU policy allows institutions to provide clerical and accounting services to the foundation as long as the foundation returns sufficient contributions of an equal or greater amount. However, MnSCU policy specifies that administrative support services do not include managerial, discretionary, or policy-making responsibilities.

We had previously reported a similar finding in our audit report of St. Cloud State University (Report 99-28). To ensure that the foundation is separate and distinct, Bemidji State University's role in management or policy decisions of the foundation requires clarification.

### *Recommendation*

- *Bemidji State University should work with the MnSCU System Office to clarify its foundation employment relationships and the level of management involvement allowed for in the MnSCU policy.*

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## Chapter 3. Tuition, Fees, and Room and Board

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### *Chapter Conclusions*

*Generally, Bemidji State University designed and implemented internal controls to provide reasonable assurance that the appropriate tuition, fees, and room and board revenue were collected, adequately safeguarded, and accurately reported in the accounting records. However, the university did not adequately separate duties over the collecting and recording of revenue. As noted in Finding 2 of Chapter 2, the university did not adequately restrict computer security clearances to its accounts receivable system. In addition, for the items tested, the university complied with material finance-related legal provisions and management's authorization.*

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Bemidji State University offers undergraduate and graduate programs to resident and nonresident students. Prior to the 1998-99 school year, the academic calendar consisted of quarters. At the beginning of the 1998-99 school year, all MnSCU schools converted the academic year from the quarter basis to the semester basis. The tuition amount for a resident undergraduate student changed from \$54.05 per quarter credit in the 1997-98 school year to \$83.50 per semester credit for the 1998-99 school year. This represented a three percent increase in tuition. Also, the resident graduate tuition rate increased from \$90.60 per quarter credit in the 1997-98 school year to \$127.60 per semester credit in the 1998-99 school year. The university collected approximately \$51 million in tuition, fees, and room and board for the three fiscal years ending June 30, 1998, as shown in Table 3-1.

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**Table 3-1**  
**Summary of Tuition, Fees, and Room and Board**  
**Fiscal Years 1996- 1998**

Source:	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>
Tuition	\$ 9,859,479	\$10,308,830	\$10,677,307
Course Fees	525,985	583,728	638,209
Room and Board	4,841,774	4,299,755	4,001,845
Student Union, Activity and Health Fees	<u>1,729,992</u>	<u>1,652,716</u>	<u>1,536,577</u>
Total	<u>\$16,957,230</u>	<u>\$16,845,029</u>	<u>\$16,853,938</u>

Source: MnSCU General Ledger Accounting System as of December 31, 1998.

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Bemidji State University classifies fees into the following three categories: mandatory fees, optional fees, and personal property and services charges. Mandatory fees consist of application fees, senior citizen fees, parking fees, and other fees. Optional fees consist of late fees, drop fees, placement fees, student life fees, athletic fees, and health services fees. Personal property and services charges are for property and services that become the personal property of the student and have educational value beyond the classroom.

## **Bemidji State University**

At the time of the MnSCU merger in 1995, the university used the old state university system mainframe computer system for recording and maintaining student data, assessing tuition, and monitoring unpaid balances. This system supported various activities such as admission, registration, financial aid, and accounts receivable. MnSCU developed one information system to replace its former systems. Bemidji State University implemented all production modules of MnSCU's newly designed Integrated Student Record System (ISRS) during the fall term of 1998. The new system consists of several window-based modules that are fully integrated. The accounts receivable module is integrated with the registration and financial aid modules allowing tuition receivables to be tracked from the time of registration until receipt and beyond.

### **Audit Objectives and Methodology**

Our review of Bemidji State University's tuition, fees, and room and board revenue focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that the appropriate tuition, fees, and room and board revenue were collected, adequately safeguarded, and accurately reported in the accounting system?
- Did the university comply with applicable finance-related legal provisions and management's authorization?

To address these questions, we interviewed university employees to gain an understanding of controls over revenue. We reviewed student registration, accounts receivable, and MnSCU accounting records for a sample of students to determine if the university charged the appropriate tuition and fee rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We also looked at the process for receiving and recording room and board. In addition, we reviewed bank deposit documentation to determine if the university complied with applicable legal provisions. Finally, we reviewed how the university monitored and pursued collection of its accounts receivables.

### **Conclusions**

Generally, Bemidji State University designed and implemented internal controls to provide reasonable assurance that the appropriate tuition, fees, and room and board revenue were collected, adequately safeguarded, and accurately reported in the accounting records. However, the university did not adequately separate duties over the collection and recording of revenue as explained in Finding 4. As noted in Finding 2 of Chapter 2, the university did not adequately restrict computer security clearances to its accounts receivable system. In addition, for the items tested, the university complied with applicable finance-related legal provisions and management's authorizations.

#### **4. Bemidji State University did not adequately separate duties over the collecting and recording of revenue.**

Bemidji State University did not adequately separate duties over the collecting and recording of revenue. The cashiers perform many duties related to revenue collecting and recording. The

## **Bemidji State University**

head cashier counts the ending cash on hand, but there is no verification of ending cash by an independent person. In addition, the cashiers have the ability to make corrections in the MnSCU accounting system, but no independent person reviews the corrections for reasonableness. We also noted that there is no process to prevent employees from entering unauthorized tuition waivers into the MnSCU accounting system.

Although not part of our scope, we noted a similar concern regarding the separation of duties over receipts in the recreation center. As previously disclosed, the university discovered a theft of recreation fees. The university charges a membership fee to users of the recreation center. The center collected the fees and forwarded them to the cashier's office for deposit. However, there was no independent review of the cash collected and deposited to the memberships sold. An adequate separation of duties would decrease the risk of errors and irregularities and increase the reliability of tuition and fee revenue recorded on the accounting system.

### *Recommendation*

- *Bemidji State University should separate the duties over the collecting and recording of revenue.*

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## Chapter 4. Employee and Student Payroll

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### *Chapter Conclusions*

*Bemidji State University designed and implemented internal controls to provide reasonable assurance that employee and student payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the university complied with applicable finance-related legal provisions and related employee bargaining agreements.*

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During fiscal year 1998, Bemidji State University paid about \$25.5 million in payroll to approximately 730 employees. Payroll is the largest expenditure for the university, averaging nearly \$982,000 every two weeks. University employees are represented by various bargaining organizations, including the American Federation of State, County, and Municipal Employees (AFSCME); Middle Management Association (MMA); Minnesota Association of Professional Employees (MAPE); the Excluded Administrators' Plan; Commissioner's Plan; and Inter Faculty Organization (IFO).

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 payrate information and bargaining agreement history. PPS contained payrate and deduction information to determine the payments to employees. The university entered payroll transactions into PPS until August 1996 when it began processing payroll information in the state's new payroll system (SEMA4) while continuing to use SCUPPS. Human resources staff entered new employee data and made changes to employees' records directly in SCUPPS. The payroll section processed the payroll and entered payroll transactions into SEMA4.

The university also employed students to perform various jobs throughout the campus. During the three fiscal years under review, Bemidji State University paid over \$7.8 million to students in various student payroll programs. The university participated in both the federal and state work-study programs which provided funding to students based on financial need. Bemidji State University also employed student workers who were paid from institutional and student activity funds. Student workers do not accrue leave and are not represented by bargaining agreements. Bemidji State University used the same payrate for all student employees. Payrates increased after 300, 600, and 900 hours of employment. Bemidji State University performed minimal personnel functions for student employees. The financial aid office entered students on the student payroll system. This office also monitored the earnings for work-study students, monitored payrates, and changed payrates once students worked the required number of hours. Students provided biweekly timesheets to their supervisors for approval. The business office entered timesheet hours into the student payroll system that printed the payroll warrants. The

## **Bemidji State University**

student payroll system was separate from SCUPPS and SEMA4, but integrated with the university's former financial aid, student records, and accounting systems.

### **Audit Objectives and Methodology**

Our review of Bemidji State University's employee and student payroll focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that it properly authorized and accurately recorded employee and student payroll expenditures in the accounting records?
- Did the university comply with applicable finance-related legal provisions and related employee bargaining agreements?

To answer these questions, we interviewed staff to obtain an understanding of the internal control structure over the payroll and personnel processes. We analyzed payroll transactions to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

### **Conclusions**

Bemidji State University designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. In addition, for the items tested, the university complied with applicable finance-related legal provisions and related employee bargaining agreements.

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## Chapter 5. Supplies, Equipment, and Services Expenditures

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### *Chapter Conclusions*

*Bemidji State University designed and implemented internal controls to provide reasonable assurance that supplies, equipment, and services expenditures were accurately reported in the accounting records and fixed assets were adequately safeguarded. However, as noted in Finding 2 of Chapter 2, the university did not adequately restrict clearances to the purchasing system. In addition, for the items tested, the university's purchasing and expenditure process complied with applicable finance-related legal provisions and management's authorizations.*

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Bemidji State University's administrative and academic departments initiated purchase requests directly in the MnSCU Purchase Control System, which encumbered available funds. The university's centralized purchasing department was responsible for procuring the goods and services, using MnSCU guidelines to solicit bids and select vendors. MnSCU guidelines required two or more written quotations for purchases from \$1,500 to \$25,000, while purchases in excess of \$25,000 required sealed bids. After the university received the goods or services, the accounts payable clerks matched the receiving evidence to the open purchase order and the invoice before processing payment.

Table 5-1 shows the supplies, equipment, and services expenditures for Bemidji State University for the audit period for all funds except the Revenue Bond Fund and the Capital Projects Fund. The university purchased operating and educational supplies and materials; consulting, communications, and other services; equipment and repairs to buildings and grounds; and utilities.

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**Table 5-1**  
**Significant Expenditure Areas**  
**Fiscal Year 1998**

Supplies and Materials	\$2,211,505
Purchased Services	1,763,729
Equipment	1,079,859
Repairs	429,224
Utilities	684,862
Total	<u>\$6,169,179</u>

Source: MnSCU General Ledger Accounting System as of December 31, 1998.

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## **Bemidji State University**

Bemidji State University defines equipment as all machinery, vehicles, instruments, apparatuses, furniture, and other articles that meet all of the following requirements:

- a unit cost of \$2,000 or more,
- a useful life of more than one year, and
- retains its identity for inventory purposes.

The university identified and tagged new equipment with a state identification sticker. The university recorded and tracked equipment on MnSCU's Fixed Asset System. MnSCU policy requires institutions to record fixed assets valued at over \$2,000. The university used its discretion to record fixed assets valued under \$2,000. The university finished a complete physical inventory in November 1998 and was in the process of completing another count during the audit fieldwork.

## **Audit Objectives and Methodology**

Our review of Bemidji State University's purchases of supplies, equipment, and services focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that supplies, equipment, and services expenditures were accurately reported in the accounting records and fixed assets were adequately safeguarded?
- Did the university's purchasing and expenditure process comply with applicable finance-related legal provisions and management's authorizations?

To answer these questions, we interviewed university employees to gain an understanding of the purchasing, fixed asset management, and invoice payment processes. We tested a sample of transactions to determine if the university complied with purchasing requirements, accurately recorded transactions in the accounting records, and promptly paid the vendor invoices.

## **Conclusions**

Bemidji State University designed and implemented internal controls to provide reasonable assurance that supplies, equipment and services expenditures were accurately reported in the accounting records and fixed assets were adequately safeguarded. However, we noted in Finding 2 of Chapter 2 that the university did not adequately restrict clearances to the purchasing system. In addition, for the items tested, the university's purchasing and expenditure process complied with applicable finance-related legal provisions and management's authorizations.

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## Chapter 6. Student Financial Aid

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### *Chapter Conclusions*

*Bemidji State University designed and implemented internal controls to provide reasonable assurance that fiscal year 1999 federal student financial aid transactions were properly authorized for eligible students and accurately recorded in the accounting system. In addition, for the items tested, the university complied with federal student financial aid requirements over cash management and federal reporting. However, the university did not adequately separate duties over financial aid or assign uncollectible Federal Perkins loans to the U.S. Department of Education.*

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Bemidji State University uses a computerized application to package and award financial aid. The financial aid module is one of the 17 modules that make up MnSCU's Integrated Student Record System (ISRS). The financial aid module interfaces with other modules within the ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor and accepts and stores the institutional financial aid application and tax data from the student. The module runs a comparison of application data provided by the student to the Student Aid Report and identifies any discrepancies, beyond accepted tolerances, in a process called 'verification.' The system enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the institution. Through interfaces into the accounts receivable module, the system automatically modifies awards by updating for actual disbursement of aid to the students. Similarly, adjusted expenditures are interfaced into MnSCU accounting.

The system provides interactive packaging, awarding, and disbursing of federal and state financial aid. The system automatically verifies applicants' compliance with specific requirements and determines the financial need and applies awards to students' accounts in the accounts receivable module. The system verifies enrollment before disbursing the awards. The system adjusts the amount of the award if a student's enrollment drops after the initial application of funds.

Bemidji State University participates in a variety of federal and state financial aid programs as discussed below.

The Federal Pell Grant is considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the student's enrollment level. Pell grant funding is not limited to funds available at an institution. The maximum Pell grant for the 1998-99 award year was \$3,000 per student.

## **Bemidji State University**

The William D. Ford Federal Direct Loan Program was established so students could borrow money directly from the federal government. The university certifies information on the promissory note for qualifying students. The Direct Loan Program has four types of direct loans including the Federal Direct Stafford/Ford Loans, Federal Direct Unsubsidized Stafford/Ford Loans, Federal Direct PLUS Loans, and Federal Direct Consolidation Loans. Students must show financial need to receive the Federal Direct Stafford/Ford Loans. The maximum loan amounts depend on several factors which may include the borrower's grade level, the length of the academic program, the dependency status of the student, the cost of education, the amount of other financial aid the student will receive, and the expected family contribution.

The Federal Perkins Loan Program provides low-interest loans to needy students. The university acts as a lender, using both federal funds and a state match for capital contribution. The university performs loan collection duties including corresponding with students entering repayment status, receiving loan repayments, and pursuing delinquent loans.

The Federal Work-Study (FWS) Program and Federal Supplemental Educational Opportunity Grant (FSEOG) are additional sources of federal financial aid. The federal government share must not exceed 75 percent of the total expenditures in the FSEOG and FWS Programs. The state contributes the remaining 25 percent of the program funding.

Bemidji State University also participates in the Minnesota State Grant Program, Minnesota State Work-Study Program, and the Student Educational Loan Fund (SELF) Program offered by the Minnesota Higher Education Services Office (HESO). The university packages these aid types along with federal financial aid.

## **Audit Objectives and Methodology**

Our review of Bemidji State University's student financial aid programs for fiscal year 1999 focused on the following questions:

- Did the university design and implement internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable federal regulations?
- Did the university comply with applicable federal requirements over receiving federal funds and preparing applicable federal reports?
- Did the university design and implement internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts?

To address these questions, we interviewed employees from the financial aid and business offices to gain an understanding of the internal control structure related to student financial aid. We evaluated and tested controls over compliance for determining student eligibility, packaging and awarding, and disbursing federal financial aid funds. In addition, we reviewed university records and tested controls to ensure compliance with regulations governing federal cash management and financial reporting.

# Bemidji State University

## Conclusions

Bemidji State University designed and implemented internal controls to provide reasonable assurance that fiscal year 1999 federal student financial aid transactions were properly authorized for eligible students and accurately recorded in the accounting system. In addition, for the items tested, the university complied with federal student financial aid requirements over cash management and federal reporting. However, the university did not adequately separate some duties over financial aid, as discussed in Finding 5, or assign uncollectible Federal Perkins Loans to the U.S. Department of Education, as noted in Finding 6.

### **5. Bemidji State University did not adequately separate some incompatible duties within the financial aid process.**

Bemidji State University did not adequately safeguard financial aid funds by separating some incompatible duties within the financial aid process. First, the financial aid office awarded SELF program loans and received SELF loan checks from HESO. The financial aid office forwarded the checks to aid disbursement, where employees released checks to students. The university received most student loan program funds by electronic funds transfer. However, SELF loan proceeds were not transferred electronically but were sent to the financial aid office. Good internal controls require a separation of incompatible duties. In the financial aid process, employees who award financial aid funds should not have access to those funds.

Second, employees in aid disbursement had access to both the Federal Perkins Loan repayments and the Perkins loan system. These same employees tracked outstanding loan receivables and granted deferments, cancellations, and postponements. Good internal controls require that employees with access to the repayments not have access to the loan records as well.

#### *Recommendation*

- *Bemidji State University should separate incompatible duties within the financial aid process.*

### **6. Bemidji State University did not assign uncollectible Federal Perkins Loans to the United States Department of Education.**

The university had not assigned uncollectible Federal Perkins Loans to the United States Department of Education for about five years. Federal regulations allow schools to assign accounts to the United States Department of Education if the school has exhausted all collection efforts. The university used a variety of collection efforts, including internal collection procedures, Minnesota Revenue Recapture, Minnesota Collection Enterprise, and private collection agencies. The university continued to hold these accounts even after numerous collection attempts were unsuccessful. Financial aid staff estimated that the university had about 70 borrowers who had not made payments on their accounts for more than ten years.

#### *Recommendation*

- *Bemidji State University should assign uncollectible Federal Perkins Loans to the United States Department of Education if the university cannot collect after following all collection procedures.*

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## **Status of Prior Audit Issues**

### **As of June 11, 1999**

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#### **Most Recent Audits**

**Legislative Audit Report 99-19**, issued in March 1999, covered material financial statement areas and federal financial aid programs administered by the State of Minnesota in fiscal year 1998. We audit these areas on an annual basis. This report did not include any findings specifically related to Bemidji State University.

#### **Other Audit History**

**Legislative Audit Report 98-16**, issued in March 1998, covered material financial statement areas and federal financial aid programs administered by the State of Minnesota in fiscal year 1997. This report included one finding related to Bemidji State University and other MnSCU institutions. The finding stated that Bemidji State University had not completely reconciled its local bank accounts to the MnSCU accounting system. We cited a similar issue in the current report as Finding 1 in Chapter 2.

#### **State of Minnesota Audit Follow-Up Process**

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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# BEMIDJI

## STATE UNIVERSITY

### OFFICE OF THE PRESIDENT

218-755-2011 / FAX: 218-755-4048

August 28, 1999

Mr. James R. Nobles  
Legislative Auditor  
First Floor South, Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is Bemidji State University's response to Mr. Donahue's audit team findings for the period from July 1, 1995 through June 30, 1998. I believe the following responses to your audit findings will adequately address the areas of concern.

Finding #1: Bemidji State University did not fully verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in the local bank account and the state treasury.

Response: Bemidji State University will complete reconciliations each month between activity posted to MnSCU accounting and the state's accounting system (MAPS). We have reconciled MnSCU accounting with local bank activity for the last 13 months to a consistent difference of \$6,356.71

Finding #2: Bemidji State University did not adequately restrict certain employee computer access privileges.

Response: All student employees will have their own access clearances for approved transactions in MnSCU accounting. The accounts receivable module access has been reviewed and only those with specific need have access. BSU will continue to work with the MnSCU System Office to redesign security groups that contain incomplete functions. BSU will routinely monitor computer security clearances.

Finding #3: Bemidji State University's relationship with its affiliated foundation may not conform to the MnSCU policy on foundation relationships.

Response: Bemidji State University will work with the MnSCU System Office to reassess the level of management involvement with the foundation and conformance to MnSCU policy.

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Deputy Hall 1500 Birchmont Drive NE Bemidji, MN 56601-2699

*A Member of the Minnesota State University System*

*Bemidji State University is an equal opportunity educator and employer*

Finding #4: Bemidji State University did not adequately separate duties over the collecting and recording of revenue.

Response: We agree with the finding and will have the cashier supervisor periodically verify ending cash at unannounced times. In addition, that person will review corrections made by Cashiers. A separation of duties process is in place to cover situations such as occurred in the recreation center and is currently being reviewed by our regional internal auditor. Tuition waivers will be audited by a list of waiver recipients processed at the end of each term and verified by the authorizing office.

Finding #5: Bemidji State University did not adequately separate some incompatible duties within the financial aid process.

Response: Bemidji State University feels that the employees who award financial aid funds (SELF) do not have access to the SELF loan checks from HESO. While the individuals are housed in the Financial Aid Office, there is separation of awarding and receiving. The Perkins repayment will be opened and tallied by the Cashiers staff before being posted into the LMS system.

Finding #6: Bemidji State University did not assign uncollectible Federal Perkins Loans to the United States Department of Education.

Response: Bemidji State University will review the federal regulations and assign uncollectible loans as recommended.

The persons responsible for resolving the above findings are Mr. Gerald Amble, Business Manager, and Mr. Jerry Winans, Director of Accounting. We expect the issues will be resolved by November 30, 1999. We believe this addresses all the findings. Should you have any questions please feel free to call. I would like to take this opportunity to compliment your audit team on their professionalism during their visit.

Sincerely,

M. James Bensen  
President