MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Audit Committee **Date of Meeting:** January 17, 2012

Agenda Item: Review Results of Southwest Minnesota State University Audit

☐ Proposed Policy Change ☐ Approvals Required by Policy ☐ Other Approvals ☒ Monitoring

☐ Information

Cite policy requirement, or explain why item is on the Board agenda:

Review results of Southwest Minnesota State University audit conducted by the Office of Internal Auditing.

Scheduled Presenter(s):

Beth Buse, Executive Director, Office of Internal Auditing
Eric Wion, Deputy Director, Office of Internal Auditing
Ron Wood, Interim President, Southwest Minnesota State University

Outline of Key Points/Policy Issues:

- We reviewed internal controls and compliance over selected activities for fiscal years 2010, 2011, and 2012 through September 30, 2011.
- Except for some supplemental receipts, the university generally had adequate internal controls. For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. We identified eight audit findings.

Background Information:

- In October 2011 the audit committee approved the Fiscal Year 2012 Internal Auditing Annual Audit Plan. As part of that plan, the Office of Internal Auditing conducted an internal control and compliance audit of Southwest Minnesota State University.

BOARD OF TRUSTEES
MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD ACTION
REVIEW RESULTS OF SOUTHWEST MINNESOTA STATE UNIVERSITY AUDIT

See attached report

Date Presented to the Board of Trustee: January 17, 2012

Southwest Minnesota State University – Internal Control and Compliance Audit

Office of Internal Auditing
Reference Number 2012-01-001 Public Release Date – January 6, 2012

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Ronald A. Wood

This report presents the results of our selected scope internal control and compliance audit of Southwest Minnesota State University for fiscal years 2010, 2011, and 2012 through September 30, 2011. It contains eight findings and recommendations to assist university management in improving business processes, controls, and accountability.

The results of the audit were discussed with university leadership and staff on December 20, 2011.

We appreciate the excellent cooperation and assistance that we received from university employees.

Beth Buse

Beth Buse, CPA, CIA, CISA
Executive Director

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The audit team was led by Melissa Primus and included the following audit staff: Carolyn Gabel, Craig Fautsch, Kim McLaughlin, and Marita Hickman

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2010, 2011, and 2012 through September 30, 2011:

- local bank accounts
- employee business expense reimbursements
- procurement (included purchasing card activity), disbursement, and equipment inventory
- receipt collections

Conclusion

Except for some supplemental receipts, the university generally had adequate internal controls. For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. We identified eight audit findings:

Findings

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.
2. The university did not have a policy to determine who has the authority and when it is appropriate to waive facility and equipment rental fees.
3. Business office cashiers shared accounting sessions and cash drawers.
4. The university did not properly retain all source documents to support receipts from the Mustang Zone.
5. The university did not adequately manage its asset inventory records and fiscal year 2011 physical inventory counts were not performed by an independent person.
6. The university did not comply with some procedural requirements for purchasing card transactions.
7. A university employee was inappropriately reimbursed for expenses previously incurred and paid for by a university purchasing card.
8. The university did not define the scenarios and limits in which employees can use personal credit cards to make university-related purchases and submit business expense reimbursement requests.

Section I: Background

Southwest Minnesota State University (SMSU) was founded in 1963 and is located in Marshall, Minnesota. It is one of seven public universities comprising the Minnesota State Colleges and Universities (MnSCU). Current enrollment is approximately 3,700 students and it employs about 240 faculty. SMSU offers nearly 50 baccalaureate majors and also offers several graduate degrees. The university is accredited by the Higher Learning Commission and North Central Association of Colleges.

Each year the university prepares financial statements that are audited by an external auditing firm. The university received its ninth consecutive unqualified or "clean" financial statement opinion in 2011. This opinion is issued when the financial statements are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles.

SMSU was selected for an internal control and compliance audit because it ranked high on our annual audit risk assessment conducted during 2011. Contributing factors included the length of time since their last internal control and compliance audit, a net operating loss of over $1 million and a low composite financial indicator (CFI) in fiscal year 2010. Finally, as a university, it tends to have more financial activity and more complex and diverse operations.

Southwest Minnesota State University's fiscal year 2011 operating revenues were approximately $22 million, of which $13 million was tuition. Its fiscal year 2011 operating expenses were approximately $47 million, of which $31 million were salaries and benefits.[1]

[1] Southwest Minnesota State University's *Annual Financial Report For the Years Ended June 30, 2011 and 2010*

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Audit Objectives

The objectives for this audit were to answer the following questions for each activity included in the audit scope:

- Were internal controls adequate to ensure the university safeguarded receipts and other assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements?

- For the items tested, did the university comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

Audit Scope

Our audit reviewed the following university activities for fiscal years 2010, 2011, and 2012 through September 30, 2011:

- local bank accounts
- employee business expense reimbursements
- procurement (including purchasing card activities), disbursement, and equipment inventory
  - operating and administrative expenses
  - equipment expenses
- receipt collections
  - tuition, fees, room and board
  - other supplemental receipts - sales and services

Audit Methodology

To answer these questions, we interviewed university staff and reviewed relevant documentation, including policies, procedures, or guidelines, and internal control documentation prepared for financial statement purposes to gain an understanding of the university's controls related to the financial operations in our scope. We considered risks of fraud and errors and potential noncompliance with finance-related legal requirements. We analyzed accounting and purchasing card data to identify unusual transactions or significant changes in financial operations. We reviewed security access over the accounting systems to identify the transactions university staff can initiate, approve or process to determine whether access is based on need and duties are adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether the university's controls were effective and if the transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion

Except for some supplemental receipts, the university generally had adequate internal controls to ensure it safeguarded receipts and other assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. We identified control weaknesses over supplemental receipts, purchasing cards, employee business expenses, and equipment inventory as discussed in the following findings and recommendations.

For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. However, the university did not comply with some MnSCU requirements as discussed in the following findings and recommendations.

Section III – Audit Findings and Recommendations

Receipt Collections

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.

The university did not have adequate controls to ensure receipts from supplemental revenue sources were safeguarded and properly deposited. The university business office collects many receipts, such as tuition and fees, directly from students. Other supplemental receipts, such as receipts from athletic, theatre, and planetarium events, student application or transcript fees, or facilities and equipment rental fees, are collected elsewhere at the university and later delivered to the business office to be deposited. We found the following weaknesses when reviewing these supplemental revenue processes.

- The university lacked methods to reconcile actual receipts to what should have been collected for some supplemental revenue sources. For example, pre-numbered receipts or other tools were not used to determine how many student transcript or application fees were paid compared to actual cash collected. In other cases pre-numbered receipts or other tools were available for reconciliation purposes; however, the reconciliations were not performed by an independent employee or evidence of the reconciliation was not retained.

- The university did not have a process to ensure some fees were properly invoiced. In one example, a stand-alone system was used for scheduling resources while a second system was used for invoicing customers for the use of those resources. The university did not reconcile the two systems to ensure that all events were invoiced. In another example, outstanding accounts receivable were not reported to the business office so collection could be pursued.

- The university did not deposit receipts in a timely manner. For example, receipts from 9 of the 10 athletic events tested were deposited 3 to 19 days after the event, receipts from 4 of 5 theatre events tested were deposited 6 to 12 days after the event, and a facility and equipment rental receipt was deposited 20 days after it was collected. MnSCU Policy 7.5 Financial Institutions and Investments, and university procedure require daily deposits of receipts totaling $250 or more. Receipts collected on the weekend should be delivered to the business office and deposited the next business day.

- Safe combinations were not changed in a timely manner. Several areas, including the business office, had safes to secure receipts. However, safe combinations were not changed when employees or student workers left and no longer required knowledge of the safe combination.

- One cash collection point did not adequately secure receipts. Receipts were placed on top of a desk until they were delivered to the business office to be deposited.

- The university had not recently assessed the need for starting cash balances or conducted periodic unannounced counts. Several areas have a starting cash balance so they are able to provide change when someone pays for an item. A starting cash balance is no longer needed in some cases while others may need a starting cash balance established. For example, in one area, an employee used personal funds for a starting cash balance when needed. Finally, the university did not conduct periodic and unannounced starting cash counts to help ensure cash has not been misappropriated.

Without adequate controls over supplemental receipts the university is at increased risk that receipts may be lost or stolen.

Recommendation

- *The university should identify all supplemental revenue sources, assess the adequacy of controls, and implement controls to ensure receipts are properly safeguarded and deposited. Also, receipt processes and controls should be documented. Controls should ensure:*

  - *deposits are complete and reconcile to supporting documentation*
  - *receipt reconciliations are completed by an independent person*
  - *fees are properly billed*
  - *receipts are deposited timely*
  - *safe combinations are changed periodically or as needed*
  - *receipts are physically secured*
  - *starting cash balances are adequate and periodic unannounced counts occur*

2. The university did not have a policy to determine who has the authority and when it is appropriate to waive facility and equipment rental fees.

The university does not have a policy to determine who has the authority and when it is appropriate to waive rental fees when individuals or groups not affiliated with the university reserve and use university facilities and equipment. Our audit identified rentals where fees were waived; however, it was not clear whether the person approving the waiver was authorized and whether the waivers were appropriate. For example, an individual not affiliated with the university was able to use university space and equipment for a wedding reception and the rental fees were waived. In addition to the costs of acquiring and maintaining space and equipment, the university incurs direct personnel costs for such an event.

The university has equipment and facilities, such as its ballroom, conference rooms, athletic facilities and classrooms, it schedules for university and non-university use. University groups have access to the facilities and equipment at no cost while others are assessed rental fees, as published on the university's web site. The university has a two-tier fee structure that includes a tier for non-profit organizations and a tier for all other community members and groups. The rental fees are intended to help recover indirect and direct costs such as personnel costs.

Without a written policy, it is not clear who has the authority and under what circumstances it is appropriate to waive rental fees. As a result, the university and its employees may be at risk of violating Minnesota statutes or MnSCU polices and procedure related to employee code of conduct and ethics.

Recommendation

- *The university should adopt a written policy that clearly defines who has the authority and in what circumstances facility and equipment rental fees may be waived.*

3. Business office cashiers shared accounting sessions and cash drawers.

Cashiers in the university's business office shared the same cash drawers and accounting system cash sessions. Although a primary cashier typically collected and recorded most receipts, they were not required to log off the system and change cash drawers when a backup cashier filled in.

Requiring cashiers to log on and off their cash sessions and maintain separate cash drawers allow management to hold cashiers responsible for transactions they record and any cash shortages in their drawers. These controls also protect cashiers from false accusations if cash shortages occur. The university would have difficulty investigating missing cash if it cannot determine who recorded transactions or handled each cash transaction.

Recommendation

- *The university should prohibit business office cashiers from sharing cash drawers and improve accountability by requiring cashiers to log into separate cash sessions.*

4. The university did not properly retain all source documents to support receipts from the Mustang Zone.

The university disposed of source cashiering receipt documentation for its Mustang Zone after only a few months. The Mustang Zone is a retail operation operated by the university's Student Center.

To comply with Minnesota Statues and ensure it maintains records necessary to provide full and accurate documentation of official activities, the university has a retention schedule that defines how long it must retain various types of information. This schedule requires receipt documentation to be retained for the current year plus the three previous years.

Preserving public financial records is an important responsibility. It helps management to demonstrate its appropriate use of public resources and protects employees from accusations of error, illegality, and noncompliance. Without documentation, the university is unable to support the propriety of the transactions.

Recommendation

- *The university should review its records retention schedule and ensure it properly retains documentation to support its financial activities and complies with records retention requirements.*

Equipment Inventory

5. The university did not adequately manage its asset inventory records and fiscal year 2011 physical inventory counts were not performed by an independent person.

The university was not sure that it completed an entire physical inventory count for assets greater than $10,000 in fiscal year 2010 and 2011. For the items that were inventoried in 2011, the university had not updated the asset inventory system. As a result, the asset inventory system is out-of-date. While conducting the audit we identified some assets over $10,000, including a garden tractor, front end loader and postage machine, the university had not recorded in the asset inventory system.

The university did not conduct a complete physical inventory for assets valued at less than $10,000, including sensitive items, for over three years. As a result, the asset inventory system included many older items that no longer existed including items that had been gone for many years. Also, it did not record some sensitive assets, like computer equipment, valued at less than $10,000 to the asset inventory system.

Finally, the university did not have an independent person perform the physical inventory counts in fiscal year 2011. Instead, most items were counted by the department in which the asset resided.

MnSCU Procedure 7.3.6 Capital Assets requires institutions to perform an annual physical inventory for items valued at least $10,000 and every three years for other inventory such as sensitive items that may be more susceptible to theft. Failure to complete periodic and full physical inventories with independent staff increase the risk that lost or stolen assets would not be detected in a timely manner and inventory records may be inaccurate.

Recommendation

- *The university should implement controls to ensure periodic physical inventories are completed in compliance with MnSCU Procedure.*

- *The university should implement controls to ensure assets are added or removed from the asset inventory system in a timely manner when items are acquired, sold, donated, or disposed.*

- *The university should ensure physical inventories are completed by an independent person.*

Purchasing Cards

6. The university did not comply with some procedural requirements for purchasing card transactions.

The university issued purchasing cards to about 90 staff. Purchasing cards were used in over 5,700 transactions totaling about $790,000 between October 2009 and October 2011. Some purchasing card transactions did not comply with procedural requirements.

- Special expense approvals were not always obtained as required by MnSCU Procedure 7.3.3 Purchasing Cards. The procedure allows purchasing cards to be used for travel expenses (excluding individual meals) and food or meal purchases for athletic teams, student activities and business meetings. However, procedure also requires approval via the special expense process prior to incurring the obligation. The university did not obtain prior approval for individual or team travel or team meals paid using university purchasing cards.

- The university did not delegate authority to each cardholder to incur expenses as required by MnSCU Procedure 7.3.3. Delegation of authority provides written authority for an employee to make purchases and obligate the university to the specified limits on the purchasing card. The university process to obtain a purchasing card includes applying for a purchasing card and signing a university cardholder agreement but not obtaining written delegated authority.

- The university did not provide merchant category blocking for three of its purchasing cards as required by MnSCU Procedure 7.3.3. Merchant category blocking allows the university to prevent its cards from being used to make purchases from certain categories of merchants. For example, alcohol cannot be purchased with a purchasing card so merchant blocking would prevent a purchase from a merchant classified as a liquor store. The university indicated it removed the default merchant category blocking for these three cardholders when Procedure 7.3.3 was revised to allow for the purchase of team meals with a purchasing card. However, the university did not manually add merchant category blocking back to those cards for unallowable purchases.

- The university does not always obtain supervisory review for purchasing card transactions as required by MnSCU Procedure 7.3.3. Faculty serving as department chairs sometimes reviewed and approved purchase card transactions of their peers even though the faculty's supervisor is an academic dean. In many cases, the department chair may be in the best position to review transactions for appropriateness and compliance; however, the authority and responsibility of department chair versus academic dean for reviewing purchasing card transactions will likely need clarification.

Note: The university had a similar issue with faculty business expense reimbursements.

Recommendation

- *The university should ensure employees obtain prior special expense approval when using purchasing cards for any travel expenses or meals purchased for business meetings, team or student activities.*

- *The university should provide written delegation of authority to each purchasing card holder.*

- *The university should implement merchant category blocking for all purchasing cards.*

- *The university should ensure that supervisors review faculty purchasing card transactions and employee business expense reimbursements; in addition, it should clarify the responsibility of department chairs versus academic deans for reviewing purchasing card transactions for appropriateness and compliance.*

Employee Business Expense Reimbursements

7. A university employee was inappropriately reimbursed for expenses previously incurred and paid for by a university purchasing card.

The university paid for some travel expenses twice when the expenses were incurred and paid with a purchasing card and then also paid as an expense reimbursement to an employee. The expenses were paid from Professional Development Funds and we were told the employee thought he needed to fill out an employee business expense form to account for the use of the funds. As result, the employee was improperly reimbursed $408.85.

Recommendation

- *The university should seek reimbursement from the employee for the expense reimbursement made in error.*

- *The university should consider additional methods to prevent or detect employee reimbursement requests for expenses paid with a university purchasing card.*

8. The university did not define the scenarios and limits in which employees can use personal credit cards to make university-related purchases and submit business expense reimbursement requests.

The university did not have a policy or other guidelines to define the situations, types of purchases, or dollar limits of university-related purchases an employee can make using a personal credit card that the employee will subsequently submit as an employee business expense request. We identified one employee who was reimbursed over $38,000 for purchases made on a personal credit card during the audit period. The reimbursements included approximately $22,000 for travel-related expenses, including airline tickets for students going on a group trip, and over $10,000 for supplies. These purchases appeared to be appropriate use of university funds.

Without specific polices or procedures that establish guidelines and limits for use of personal credit cards, employees may make purchases and obtain reimbursement for items that circumvent key procurement controls and purchasing requirements. The university may want to consider requiring large purchases or routine purchases be made using the university's traditional procurement process or require employees to use a university purchasing card.

Recommendation

- *The university should define the scenarios and limits for employees' use of personal credit cards for university-related purchases. It should consider whether large purchases or routine purchases should be made using the university's traditional procurement process or require a university purchasing card.*

SOUTHWEST MINNESOTA STATE UNIVERSITY
RONALD A. WOOD, INTERIM PRESIDENT

January 3, 2012

Minnesota State Colleges and Universities
Members of the Board of Trustees
Chancellor Steven J. Rosenstone
Ms Beth Buse, Executive Director Internal Auditing
30 7th St. E., Suite 350
St. Paul, MN 55101-7804

Dear Chancellor Rosenstone, Trustees and Ms Buse:

Southwest Minnesota State University (SMSU) is appreciative of the professionalism of the team that recently completed the Compliance Audit covering the fiscal years 2010 and 2011 and the first three months of FY 2012. The compliance audit followed immediately after our annual financial audit in which we continued to have an unqualified audit with no findings.

The compliance audit was very useful in assisting us to identify both strengths and weaknesses in our operation. Attached is a response to the findings and steps being taken to correct areas of weakness. We believe that the audit also demonstrates two levels of weakness at the system level.

The first is with respect to the policy and procedure defining the use of purchasing cards. While we found ourselves not in compliance with aspects of the system policy/procedures as they apply to purchasing cards, we do believe we are in compliance with the intent of the purchasing card use. We believe the current policy attempts to create a one size fits all approach to a complex system. It requires a layer of paper work that creates an unnecessary redundancy of work with a very limited reduction in risk. Additional comments are found in the attached findings response.

The second is with respect to concept of the compliance audit. The last SMSU compliance audit was 1998. Considerable system policy and procedure changes have occurred over the last thirteen years. A tremendous amount of employee turnover has occurred at the system office and the University over the last 13 years. Finally, four different Presidents have led the institution since 1998. Time creates incremental changes in practice that moves an organization away from policy/procedure. New policies are often open to interpretation in practice which create variances over time. It would be my hope that

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a maximum of four years be the longest period of time between Compliance Audits in the future. It keeps an institution on track and helps point out deficiencies in university and system policies.

SMSU is proud of its fiscal responsibility and the clean financial audits received over the last decade. We have learned much from the recent system compliance audit and will be instituting University policies/procedures to insure that we are in compliance with system policies and procedures identified as findings.

Sincerely,

Ronald A. Wood

Ronald A. Wood, PhD
Interim President

/cra

Southwest Minnesota State University
Response to Internal Control and Compliance Audit
December 2011 - January 2012

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.

Southwest Minnesota State University (Southwest Minnesota State University) management agrees with this finding, recognizes these deficiencies and accepts these recommendations regarding supplemental revenues.

Southwest Minnesota State University management will work with each of the supplemental revenue areas to develop procedures that will allow for security of receipts, proper billing, timely depositing and reconciling of transactions by the business office independently of those accepting the receipts. These written procedures will become part of the Business Control Cycles.

Southwest Minnesota State University will incorporate a practice of using pre-numbered receipts or other tools for reconciliations.

Departments have been told that no invoicing is to be done except by the business office. To emphasize this written procedure will be created and posted on the business office website and distributed to all departments. This is important for proper account receivable record keeping. A method of reconciling between the EMS system and ISRS will also be implemented to assure that all scheduled activities have been invoiced.

The Business Office has emphasized timely deposits to departments but as the audit shows has not been successful in accomplishing this. Written procedures will be created and posted on the business office website and distributed to all departments. This will become part of the written procedures for each of the supplemental revenue areas. We will emphasize timely depositing with all supervisors and directors of those areas also.

Discussions regarding safe combinations with each supplemental revenue area have begun. Southwest Minnesota State University agrees this is especially important in areas with multiple turnovers. The safe in the Business Office was put into operation in 2002. Since that time the Business Office has had just one employee with safe access leave the Business Office. That employee is still employed by the University. An individual actually needs two room keys, one safe key and the safe combination before they can open the safe. The employee who had the business office safe combination does not have access to the three keys to get to the safe. We did inquire with the local company who can change safe combinations regarding the business office safe and the local company was hesitant to change the combination due to its type. We will investigate other options.

The security of cash collections will become part of written procedures for each area that has cash/receipt collection points. Cash and other receipts should be secured at all times.

Cash banks will be reviewed for necessity. We recognize that unannounced audits have not taken place on a regular basis or for some time and will become part of written procedures and assigned to a specific position.

2. The university did not have a policy to determine who has the authority and when it is appropriate to waive facility and equipment rental fees.

Southwest Minnesota State University agrees with this finding and is in the process of writing a policy clearly defining authority and circumstances for acceptable waiving of rental fees. The policy will state that any approved waivers or reductions of fees will be in writing and will state who may approve those waivers or reductions. The University clearly does not want to put its employees at risk of violating policies and procedures.

3. Business office cashiers shared accounting sessions and cash drawers.

Southwest Minnesota State University agrees with this finding. We recognize that during lunch breaks or other short breaks the cashier did not sign off her cash drawer and the backup cashier would use the same drawer. Although receipts are time stamped and it could be determined who was cashiering at a certain time there are inherent risks in regards to cash shortages. The Business Office will develop additional procedures for cash drawer usage.

4. The university did not properly retain all source documents to support receipts from the Mustang Zone.

Southwest Minnesota State University agrees with this finding. The University over the past year has been and continues to be in the process of updating and reviewing its record retention procedures. The University prefers that all original documentation is retained by the Business Office and given to the Business Office as part of the deposit procedure when possible and appropriate. We will review these original receipts with the Mustang Zone and determine the best procedure to use. We will also review the Student Center record retention procedures to be sure original receipts are listed and have the appropriate years of retention listed.

5. The university did not adequately manage its asset inventory records and fiscal years 2011 physical inventory counts were not performed by an independent person.

Southwest Minnesota State University agrees with this finding. The University recognizes that it did not meet requirements in various aspects of inventory procedures. Southwest Minnesota State University has not had consistency in inventory assignments and management. In the past three years we have had to assign the inventory duties to three different individuals because of staffing changes and prior to that there were multiple changes also. Proper inventory management has been a casualty of budget cuts.

Southwest Minnesota State University management will make this a top priority over the next few weeks and will continue to review and monitor inventory on an ongoing basis. As of the beginning of January 2012, the physical inventory duties are being reassigned to a different individual who will have time to complete the physical inventory on an annual basis. The current inventory procedures will be updated and completed in more detail to assist this individual. Business Office staff has already begun cleaning up prior year issues. The Information Technology Department is assisting the Business Office staff in making access to the sensitive item moves and deletions on a timelier basis.

6. The university did not comply with some procedural requirements for purchasing card transactions.

Southwest Minnesota State University agrees with this finding. Southwest Minnesota State University management recognizes that it did not require special expense forms for all travel paid by purchasing cards nor did it issue Delegation of Authority (DOA) forms for those issued purchasing cards. These policy requirements were overlooked by management per the policy changes last year. Delegations of Authorities will be processed for all those with current purchasing cards. A Delegation of Authority will become part of the process for obtaining a card.

Although we recognize the statement in policy that requires a special expense form for travel paid by a purchasing card, it seems to contradict the reason to use a purchasing card. A purchasing card should make the process easier yet we have just now created a requirement that does not exist if the purchase is made by purchase order or by a travel expense reimbursement or advance and settlement. We would like further discussion on this item to take place between the system office, internal audit, and purchasing card users.

The Southwest Minnesota State University Purchasing Director has already begun the process of working with US Bank on the merchant category code blocking. Blocks have been added back to those on which they were removed entirely. We will continue to refine this so that correct blocking is obtained.

Southwest Minnesota State University management agrees that we have allowed the persons with responsibility for budget approval to approve the transactions for faculty. These individuals may not be the Deans. If Deans must approve the expenditures for all faculty regardless of where the funds are from or who is responsible for them, multiple layers of signature authority will need to be obtained. The added benefit for this additional layer of approval is minimal as the Dean may have no understanding of the reason for the expense or if the expense was appropriate for the department.

7. A university employee was inappropriately reimbursed for expenses previously incurred and paid for by a university purchasing card.

Southwest Minnesota State University agrees with the finding. The university has already requested reimbursement from the employee and the employee has deposited a check with our cashiers on December 19, 2011 to be applied to the duplicated reimbursement.

The Business Office is implementing processes to assist in the monitoring of employee purchasing card and employee expense forms. The staff who processes these items will also meet to assist in developing additional procedures that will be beneficial to this review such as queries that could match like expenses.

8. The university did not define the scenarios and limits in which employees can use personal credit cards to make university-related purchases and submit business expense reimbursement requests.

Southwest Minnesota State University senior management will consider establishing guidelines for reimbursement of expenditures that occur through the employee expense reimbursement process rather than through the traditional purchasing process. The individual mentioned in the audit findings is no longer in the position they were when these purchases were made and processes for the replacement individual will be defined.

Guidelines for departmental purchases that are established will be added to the Southwest Minnesota State University Purchasing Website. The positing of these guidelines will be made known to all employees.