FINAL REPORT

OFFICE OF INTERNAL AUDITING

Minnesota State Colleges and Universities

Reliability of MnSCU Financial Data

Public Release Date: May 19, 1999

Public Copy Release Date: May 19, 1999

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OFFICE OF INTERNAL AUDITING

MnSCU
Minnesota State Colleges & Universities

Honorable Andrew Boss, Chair
MnSCU Audit Committee

Members of the MnSCU Board of Trustees

Chancellor Morris Anderson

MnSCU Presidents

The MnSCU Board of Trustees have often expressed a strong interest in obtaining audited financial statements for the organization. Their interest has come amidst ongoing questions about the reliability of the underlying data recorded in the MnSCU financial systems. In the first two years after the merger, financial audits issued by the Office of the Legislative Auditor raised questions about college and university financial practices and the integrity of MnSCU financial data. By fiscal year 1998, many observers believed, however, that the quality of the financial data had improved significantly. Accordingly, in June 1998, the MnSCU Audit Committee directed my office to conduct this audit of the **Reliability of MnSCU Financial Data**.

We conducted the audit in compliance with the *Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing* and the *Information Systems Audit and Control Association: Standards for Information Systems Auditing.*

To prepare the report, we interviewed representatives from the 36 MnSCU colleges and universities and system office representatives responsible for finance, budgeting, and information technology services. We also conducted extensive detailed testing of financial transactions for fiscal year 1998 and reviewed the status of cash reconciliations as of December 1998.

Ms. Melissa Primus was responsible for the lead work on this project, including the design of interview questionnaires and testing. Other Internal Auditing employees, as identified on page *i*, have also contributed significantly to this project.

Sincerely,

/s/ John Asmusen

John Asmussen, CPA, CIA, CISA
Executive Director
MnSCU Office of Internal Auditing

End of Fieldwork: April 9, 1999
Public Release Date: May 19, 1999

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Audit Participation

The following representatives of the MnSCU Office of Internal Auditing contributed significantly to the completion of this project:

Executive Director:	John Asmussen, CPA, CIA, CISA
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Administrative Support:	Nancy Hoglund Executive I

MnSCU Review & Response

A draft of the executive summary, chapter conclusions, findings and recommendations was reviewed and discussed with the following members of the system office on Friday, May 7, 1999.

Linda Baer
Senior Vice Chancellor for Academic and Student Affairs

Laura King
Vice Chancellor – Chief Financial Officer

Leslie Mercer
Associate Vice Chancellor – Policy and Planning

Bill Tschida
Vice Chancellor – Human Resources

A complete draft was provided to the aforementioned persons on Tuesday, May 11, 1999.

Based on their review, the draft was modified to improve its clarity and accuracy. The final conclusions and recommendations represent the professional judgement of the MnSCU Office of Internal Auditing. The persons reviewing the draft indicated their general agreement with the reports overall conclusions and recommendations.

Overall Conclusion

The creation of the MnSCU financial systems consolidated several methods of accounting for financial activity into one common framework. The development of all-inclusive financial databases was a major accomplishment for the organization. Previously financial data was maintained on several different systems and maintained in a piecemeal fashion. The MnSCU systems provide the foundation for analyzing system-wide financial data.

The MnSCU financial systems, though, are complicated and not well understood by users. The systems are not user friendly and have caused administrative inefficiencies. Because the core accounting and human resources systems have existed for nearly four years, users have been able to adapt to their shortcomings and make them work for basic daily operational tasks. The systems produce reasonable results for supporting daily operational tasks, such as receipting and disbursing. Additional efforts are needed, however, to produce complete information on financial condition.

The system office is aware of problems with the current financial systems. It has given a high priority to solving critical operational concerns, such as reconciling bank accounts. It also has established several study groups to ensure consistent data classifications in the future, particularly for use with the new allocation model.

There are additional areas where we recommend further improvements. Opportunities to simplify the systems must be explored, user support must be improved, and training and up-to-date manuals need to be developed. Additional guidance and emphasis is needed to ensure that colleges and universities code occurrence dates properly, record transactions timely, and maintain adequate supporting documentation for sensitive transactions. In order for the systems to produce complete balance sheet information, additional routines and procedures must be developed and implemented on a regular, disciplined basis.

Users often find standard system reports to be confusing and difficult to understand. As a result, many users produce their own reports off-line using spreadsheet applications. Rather than concentrate on improving the system's reporting features, the system office has been training users in database query tools.

To improve system efficiencies significantly and provide adequate reporting functionality for users will be costly and time consuming. Therefore, the MnSCU information technology governance structure must explore other alternatives before making a major investment in patching the current systems.

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Scope and Objectives

The primary purpose of this report was to analyze financial accounting data to determine if it is complete, accurate, timely, and consistent.

Appendix A shows the full project proposal presented to the Audit Committee on June 17, 1998.

We completed our review by conducting interviews with administrative staff at the system office and all 36 colleges and universities. In addition, we had discussions with information technology service (ITS) division staff on the input and processing controls within the primary financial applications. We also completed a comprehensive review of the payroll process. Finally, we completed detail transaction testing to analyze financial accounting data primarily for fiscal year 1998.

During March 1999, the Office of the Legislative Auditor (OLA) began the planning stages of an application audit of the new Minnesota State Colleges and Universities (MnSCU) Accounts Receivable system. We did not focus our review on this system due to the work being completed by the OLA. We anticipate a report from the OLA on the Accounts Receivable system in the fall of 1999.

Financial System Background

Prior to the MnSCU merger, each higher education system had a different method for accounting for financial transactions. Table 1-1 documents where each system accounted for detailed accounting transactions. The community colleges and state universities directly entered detail transactions in the State of Minnesota systems for state funded activities. However, the technical colleges were not required to use the State of Minnesota systems and accounted for all accounting transactions on the Uniform Financial Accounting and Reporting (UFARS) Standards system. This system is used to account for school district financial activity and is maintained by the Minnesota Department of Children, Family, and Learning. Table 1-1 also shows that the community college system did not consolidate financial information for activities outside the state treasury.

When planning for the merger, MnSCU administration wanted a solution that would consolidate the multiple systems described in Table 1-1. MnSCU preferred to develop financial systems that were independent from the State of Minnesota systems due to the unique requirements of higher education. On the other hand, the State of Minnesota felt MnSCU should account for financial activity on the state's centralized systems like other state agencies. Meetings were held between MnSCU and state agency heads to develop a solution. In the end, a compromise solution was made.

MnSCU was allowed to develop its own accounting and human resource systems, but the systems needed to interface with the State of Minnesota systems.

MnSCU did develop and implement an accounting system which consolidated all financial activity in one system. In addition, MnSCU has developed and implemented several other applications to account for and manage financial resources. Table 1-2 gives a brief description of financial systems used by the system office and colleges and universities to manage financial resources. In addition, many institutions have purchased or developed in-house financial applications to account for individual or unique institution needs. For example, these applications may be used to account for bookstore, food service, parking, or customized training operations.

The MnSCU system office requires colleges and universities to use many of the applications described in Table 1-2. For example, colleges and universities are required to use MnSCU Accounting to account for all financial transactions. In addition, institutions are required to account for human resource data in the State College and University Payroll and Personnel System (SCUPPS). These two systems interface with the State of Minnesota accounting and human resource/payroll systems.

Table 1-1
Accounting Systems in Place Prior to Merger

Former Higher Education System	Detail Accounting Transactions for State Appropriated Funds	Detail Accounting Transaction for Local Fund Activity
State University System	Batch entered into both the State of Minnesota accounting system and the State University accounting system	State University accounting system
Community College System	Entered centrally in State of Minnesota accounting system.	No centralized system - manual or college elected application
Technical Colleges	Uniform Financial Accounting and Reporting Standards (UFARS) accounting system	Uniform Financial Accounting and Reporting Standards (UFARS) accounting system

Source: Interviews with MnSCU employees

Table 1-2
MnSCU Financial Systems
As of April 1999

Application Name	Description	Usage
Minnesota Accounting and Procurement System (MAPS)	State of Minnesota's accounting (GFS) and purchasing system (AGPS).	GFS is required for all state-appropriated funds. Colleges and Universities may use AGPS to set up vendors.
State Employee Management System (SEMA4)	State of Minnesota's human resource and payroll system.	Required for all MnSCU employees.
MnSCU Accounting	Contains all accounting transactions.	Required for all MnSCU funds.
Purchasing Control System (PCS)	MnSCU purchasing system. Used to initiate purchase orders. Contains multiple levels of security for authorizing purchases.	Optional
Accounts Payable (Check Writer)	Generates checks on-site that draw funds from local bank accounts. Provides programs for bank reconciliations and tracking voids.	Required
Accounts Receivable (A/R)	Accounts for student and non-student receivables. Provides an invoicing and billing function. In addition, student rates are set-up in module and student charges are calculated automatically.	Required *(not fully implemented, projected implementation date of July 1999)*
Financial Reporting	Captures current transactions for financial reporting purposes. Used to convert accounting data to GAAP format.	Used only by system office
Equipment	Used to record and tracks individual equipment items over $2,000.	Required
State Colleges and University Payroll and Personnel System (SCUPPS)	MnSCU's human resource and payroll system. Used to record all employee assignments.	Required for all MnSCU employees.
Student Payroll	Used to record activity for student payroll. Including employee set-up, work authorizations, timesheet entry, and employee paychecks.	Required *(not fully implemented, projected implementation date of July 1999)*
MnSCU Financial Aid	Used to track, award, and apply student financial aid based on student's enrollment status.	One of three financial aid applications is required.
PC SAFE	Used to track, award, and apply student financial aid. Interfaces with Student Information System.	One of three financial aid applications is required.
Student Aid Reporting and Analysis System (SARA)	Used to track, award, and apply student financial aid. Interfaces with Student Information System.	One of three financial aid applications is required.
Loan Management System (LMS)	Used to record and track collection efforts on Federal Perkins Loans.	Beginning with Fiscal Year 2000, required by all institutions participating in the Federal Perkins Loan Program.
Cost Allocation	Process to generate charges and payments for goods and services provided from one department to another within a college or university.	Unisys application currently used by state universities. An effort is underway to replace this system.
Consumable Inventory	Process for the entry, storage, and reporting of detailed information on materials and services purchased for use throughout the colleges and universities.	Unisys application currently used by state universities. An effort is underway to replace this system.

Source: Auditor Prepared

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Chapter Conclusion

The creation of the MnSCU financial systems consolidated several methods of accounting for financial activity into one common framework. The development of all-inclusive financial databases was a major accomplishment for the organization. These systems, however, are exceedingly complex and difficult for users to understand. The MnSCU information technology governance structure must evaluate options for long-term solutions to meet the organization's financial information needs. In the meantime, steps must be taken to add basic user support, eliminate undue complexity, and incorporate the use of project management and quality assurance techniques for controlling system enhancements.

MnSCU created the Information Technology Services (ITS) division in July 1998. This division is responsible for developing and maintaining the centralized administrative systems. The division is headed by a chief information officer (CIO), who reports to the Vice Chancellor for Finance-CFO. Prior to the formation of the ITS division, system development and maintenance was primarily completed by college and university employees as time permitted.

Our original intent was to address the following question on the design and functionality of financial systems.

- Does MnSCU Accounting have effective input and processing controls?

When we began to look at the input and processing controls over the financial systems we determined there were broader issues that needed to be reviewed. In this chapter, we focus our review on the design, functionality and support of the financial systems. We completed our review by interviewing ITS division employees. In addition, we completed a detailed analysis of the payroll process. Finally, we interviewed employees at colleges and universities on their overall understanding of financial systems.

1. MnSCU has not completed a comprehensive evaluation of the best long-term solution for meeting financial information and reporting needs.

The financial systems introduced in Chapter 1 were implemented without a formal system development methodology. In addition, the fundamental financial systems (MnSCU Accounting and SCUPPS) were developed and implemented within an extremely short timeframe prior to the merger. The January 1999 Internal Auditing report on the Student Information System states "The organization was simply ill-equipped to develop its own software in-house. Insufficient resources were invested in testing the quality of software modules, developing training programs, and documenting system design and processes."[1]

[1] Student Information System Report, MnSCU Office of Internal Auditing – January 1999

These same issues contributed to many of the financial system issues cited in this report.

Beginning with calendar year 1999, a formal process was established for prioritizing system development work. As part of the process, MnSCU began steps to establish an information technology governance structure. At this point, the governance structure is in the process of being finalized. Once in place, this structure needs to set a foundation for system development decisions.

Currently, the process for prioritizing functionality and enhancement requests is the responsibility of user groups. User groups are made up of representatives from colleges and universities within different functional areas. There are several user groups including accounting and human resources that meet on a regular basis. ITS division architects facilitate these meetings and record minutes. As priorities are set, the architects are responsible for developing detailed specifications for use by developers and quality assurance employees.

The accounting user group meets every other month to prioritize issues and enhancements related to common financial systems. In addition, accounting user sub-groups have met to concentrate on specific issues, such as bank reconciliations and the funds applied process. Table 2-1 documents the top 10 current priorities for the accounting user group.

In addition to the priorities listed in Table 2-1, there are literally hundreds of enhancement requests from users that have not been prioritized. ITS division employees commented that many of the requests would be helpful for users and make their jobs more efficient. However, there are just not sufficient resources to add any more items to the current priority list.

Table 2-1
Accounting User Group Priorities
April 1999

#	Priority
1	Bank Reconciliations
2	Funds Applied Modifications
3	Student Payroll Fund Transfers
4	Cancelled Check Program
5	Changes to the MAPS interface for Summer Session
6	Interfund Accrual Payoff Program
7	Tuition and Fee Calculation Issues *(Customized Training, Housing, New Policy on Refundable Fees)*
8	Cost Allocation and Consumable Inventory Modules
9	Financial Statement Program Changes
10	Accounts Receivable Invoicing/Third Party Billing

Source: MnSCU ITS Division

The user groups are a good solution for analysis and prioritization of day to day functionality issues and questions. However, the organization needs to take a step back and evaluate the best long-term solution for accounting for financial activities and reporting. The user groups cannot resolve many questions and issues related to system development, for example:

- Will MnSCU Accounting be able to efficiently provide the data needed to produce financial statements? The Board of Trustees has expressed interest in obtaining audited financial statements.

- Are MnSCU's reasons for initially requiring its own unique systems still valid? The State of Minnesota has completed upgrades to MAPS and SEMA4 in recent years. Will these new upgraded systems meet MnSCU's needs?

- What financial systems have other higher education institutions implemented? Will these systems more economically meet our needs?

- With limited development resources, how do new initiatives receive priorities?

- Payroll processing gets lost between human resources and accounting. How do issues get resolved when they arise in this critical area?

The existing financial systems were not developed under ideal circumstances. However, these systems survived the difficulties of the merger transition. Furthermore, these systems enabled the organization to combine financial accounting data. These systems may not, however, be most suitable for the organization in the future. As indicated in Finding 3, the systems have created administrative inefficiencies and, as discussed in Chapter 6, they have insufficient reporting capability. Before MnSCU invests significant resources into modifying and enhancing existing systems, it needs to look at future needs and determine the best solution for the next millennium.

Recommendations

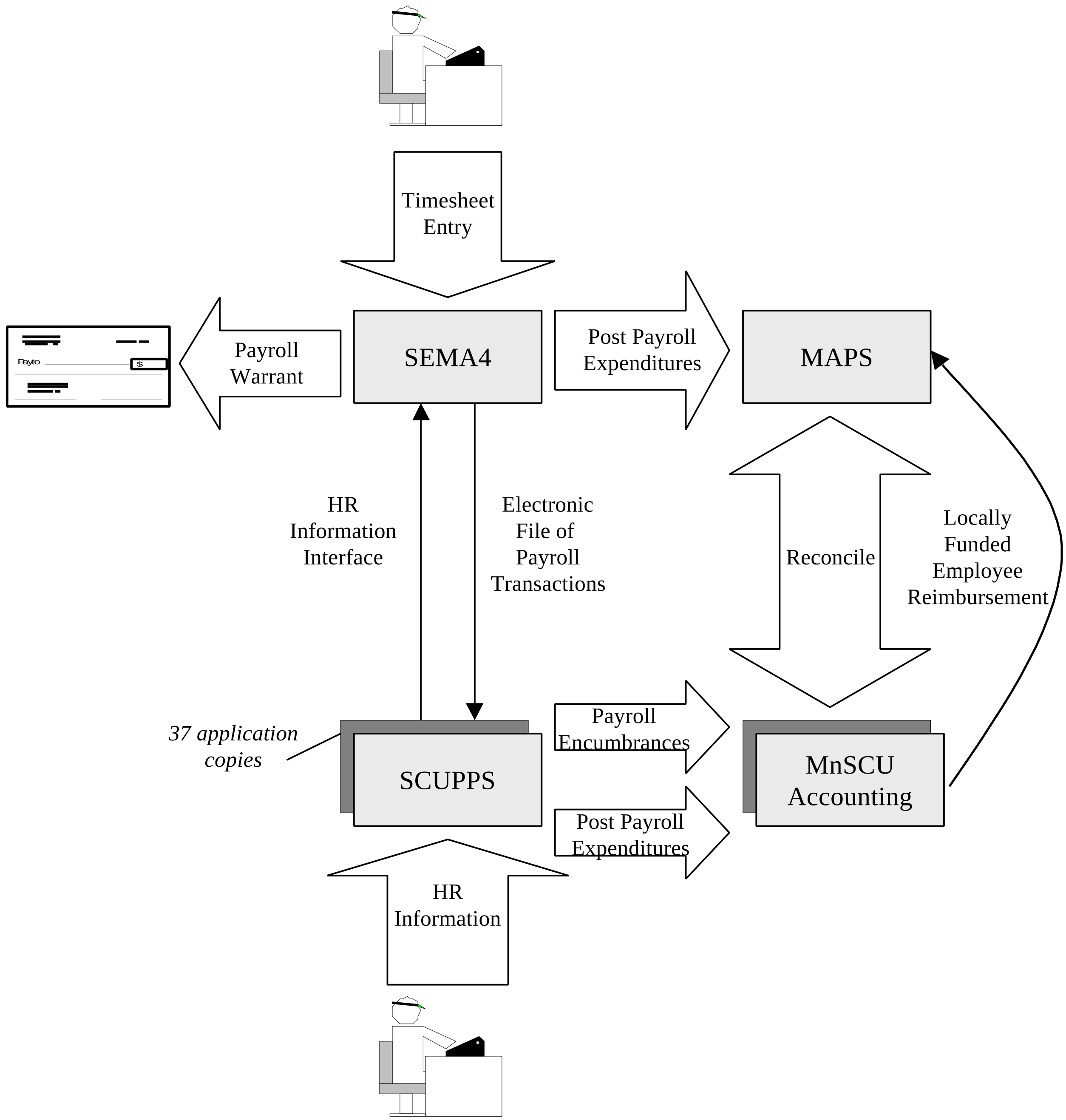
- ✓ *The MnSCU information technology governance structure must explore alternatives for providing the organization with effective future solutions for meeting its financial information needs. Long-term solutions must take into account the personnel demands imposed by existing and proposed systems.*

- ✓ *Opportunities to eliminate multiple and duplicative financial systems must be explored.*

- ✓ *The governance structure must allocate appropriate personnel and financial resources to this project, while balancing the demands of non-financial systems.*

- ✓ *The governance structure must sort out responsibilities for managing systems that have overlapping jurisdictional considerations, such as payroll/human resources.*

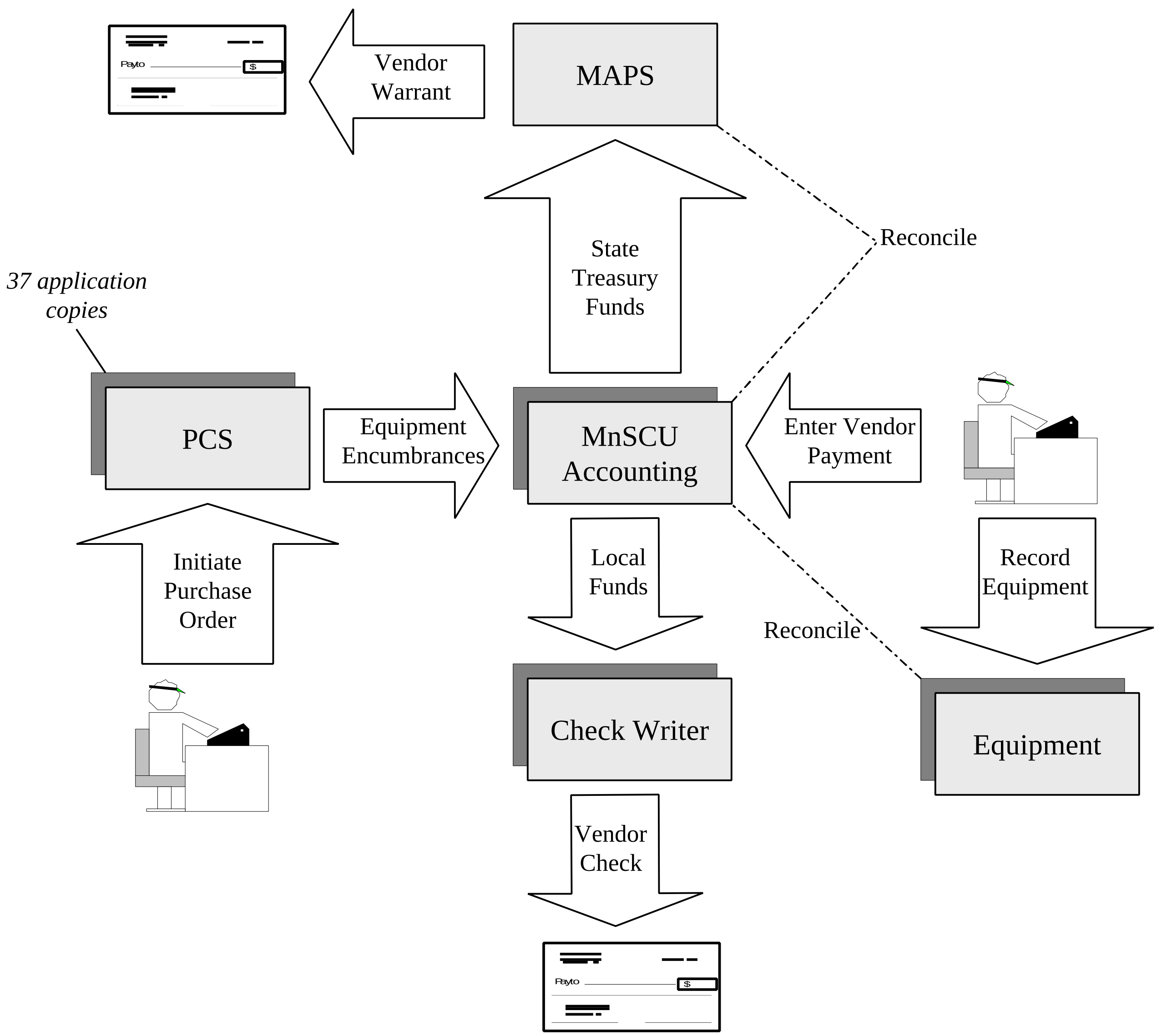
Figure 2-1
Simplified MnSCU Personnel/Payroll Process



In summary, personnel transactions are entered into SCUPPS and interfaced to SEMA4 weekly. On the other hand, timesheet information is entered into SEMA4 that generates employee payments. Employee payment information is electronically sent to SCUPPS. This information is used to post payments to MnSCU Accounting.

Source: Auditor prepared

Figure 2-2
Simplified MnSCU Equipment Purchasing Process



In summary, employees initiate purchases in the Purchasing Control System (PCS), PCS encumbers funds in MnSCU Accounting. Once the equipment is received, employees enter vendor payment information into MnSCU Accounting. If the funding source of the payment is state funds, the payment transactions are interfaced to MAPS. If the funding source is local funds, the payment transactions are batch processed to the Check Writer system and checks are generated locally at the campus.

Source: Auditor prepared

2. MnSCU has not provided basic user support for the financial systems.

College and university employees talked about the difficulties of implementing both MnSCU Accounting and SCUPPS. Both systems were placed into production around the time of the merger. At that time, users were given minimal training and documentation on the new systems. Employees were forced to learn the systems by trial and error. Improvements have been made for supporting users since that time. However, several issues still exist, including:

- Documentation was developed for MnSCU Accounting after the system was implemented. However, the manual has not been updated for several years. In addition, some college and university users did not know it existed.
- No formal training has been developed for MnSCU Accounting. Colleges and universities complete in-house training for new employees. Many institutions would like to see more formalized training. In addition, employees would like to have specialized training.
- At the time of our review, no documentation existed on the process for posting business expenses to MnSCU Accounting.
- Recently, a financial system help desk was established for users. However, users expressed concern that help desk employees were not fully knowledgeable on the financial systems.
- Users expressed concerns that the on-line help features within the system are not sufficient.
- No technical documentation exists on the process for posting payroll to MnSCU Accounting.

MnSCU needs to evaluate and improve support offered to users.

<u>Recommendations</u>

✓ *It is essential that an up-to-date accounting manual be developed for users. The manual must provide a foundation for ensuring that users have current guidance available to them on a timely basis and serve as an effective reference tool.*

✓ *Basic training courses for initiating new users to the accounting system are needed.*

✓ *Priorities for adding other user-friendly features, such as on-line help, should be dependent on the decision of the MnSCU information technology governance structure for future solutions.*

3. The financial systems contain undue complexity and require excessive administrative maintenance.

To effectively manage financial resources, college and university employees need to have a good working knowledge of how applications process data. In addition, employees need to understand the different relationships or interfaces between the applications. For example, Figures 2-1 and 2-2 depict simplified versions of the number of systems and interfaces needed to pay a MnSCU employee and complete an equipment purchase. As the figures depict, the processes are extremely complex. In order to complete these basic transactions, both the State of Minnesota and MnSCU systems are used.

Table 2-2
State of Minnesota Interface Activity
April 1999

Interface	Description	Approximate Transaction Count	How Often
MnSCU Accounting to MAPS	State Funded Payment and Revenue Transactions	4,000	Daily
SCUPPS to SEMA4	Personnel Transactions	8,000	Weekly
SEMA4 to SCUPPS (Electronic File)	Payroll Transactions	19,000	Bi-weekly

Source: ITS Division Calculations

As discussed in Chapter 1, MnSCU developed interfaces to exchange data between its systems and the State of Minnesota systems. Table 2-2 shows a sample of the activity between systems. As the table shows, the MAPS interface has the most activity overall. This interface occurs at approximately 3:30 P.M. each day and records transactions that involve state treasury funds on MAPS. The interface results in the State Treasurer transferring college and university tuition receipts from local bank accounts to the state treasury. In addition, any expenditures from state treasury funds result in warrants being produced and sent to vendors.

Discussions with both system office and college and university employees indicated there is an overall lack of understanding about how the various systems process data. Employees generally do not understand how the various systems interrelate. This lack of knowledge and other inefficiencies cause problems when trying to account for financial activities. For example:

- Colleges and university employees have found it necessary to work around the timing of when transactions are collected for the MAPS interface. In some cases, business offices close cash windows at approximately 3:00 P.M to accommodate the daily interface. MnSCU and the Minnesota Department of Finance established this timeframe in order to process these transactions into MAPS.

- Employees expressed overall frustration over the complicated and confusing process for reimbursing locally funded employee payroll expense to the State Treasury.

- Employees expressed frustration over the confusing student payroll process.

- Each day an e-mail is sent to accounting employees to announce that the MAPS interface has occurred. This announcement notes the number of transactions interfaced and also notes any failures.

- Some colleges and universities are required to reconcile MAPS to MnSCU each month. The system office completes this reconciliation for some community colleges. Discussions with employees and review of documentation showed that many institutions did not understand the importance of this reconciliation. In addition, many institutions did not understand or did not make an effort to investigate the differences noted in these reconciliations.

- Our review of fiscal year 1998 payroll and business expenses generally showed the process is working. However, we did note several examples that resulted in approximately $60,000 not being posted to MnSCU Accounting. A daily diagnostic report sent to colleges and universities alerts the institutions when posting errors occur. However, this report is not exception based and contains too much detail. This may cause employees to ignore the report and allow exceptions to go undetected.

Colleges and universities have not experienced the same level of success with the financial systems. Some institutions have been able to overcome the hurdles and are making the systems work for them. For the most part, we observed that these institutions have employees with a more extensive accounting background.

<u>Recommendations</u>

✓ *Simplify the daily diagnostic report and make it an exception report.*

✓ *Eliminate daily batch processing messages and report only exceptions.*

✓ *Review the timing of the process for collecting transactions for the daily MAPS interface. For example, transactions could be collected overnight and sent through the MAPS interface the following day.*

✓ *Develop standard routines and procedures to ensure that accounting data recorded on MAPS is accurate, so that colleges and universities can concentrate on MnSCU Accounting as their exclusive accounting system.*

4. System enhancements and problem resolutions are not managed with conventional quality assurance and project management techniques.

The lack of a comprehensive quality assurance process has resulted in significant financial system functionality issues. For example, the funds applied functionality put into production in January 1999 resulted in several institutions being unable to reconcile MnSCU Accounting to bank accounts. If a comprehensive quality assurance process would have been in place, the reconciliation problem may have been avoided.

Testing of any financial system functionality should include a comprehensive testing plan. The testing plan should include steps for completing reconciliations for critical timeframes (i.e. month and year-ends). In addition, the testing plan should include user acceptance of any critical functionality. The newly formed ITS division includes a quality assurance unit. However, this unit is not yet familiar with quality assurance business practices and lacks expertise in the financial system applications.

MnSCU needs to make a commitment to use project management tools. Users continually express frustration over missed timeframes or incomplete functionality. The use of project management tools will begin to eliminate these frustrations. For example, MnSCU needs to use detailed project plans that include schedules and milestones. Schedules should include realistic timeframes for completing development and testing. In addition, these plans should identify employees responsible for completing milestones.

Recommendations

- ✓ *Develop comprehensive testing plans for financial system modifications. When cash transactions are included, these plans should require a month-end cycle and test the completion of a bank reconciliation.*

- ✓ *Projects must be managed with conventional project management tools. Estimated development resources and expected delivery dates must be communicated to users to enhance accountability.*

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Chapter Conclusion

MnSCU financial systems produce reasonable results for supporting daily operations, such as receipting and disbursing funds. Our testing showed that coding for attributes such as funds, program codes, and object codes was reliable. A critical operational issue that still must be resolved is the reconciliation of cash to bank balances. Additional operational issues that need improvement include the accuracy of occurrence date coding, the timeliness of recording data, and the support for sensitive transactions, such as journal entries. Finally, accounting operations lack the discipline of regularly recording the necessary information to produce complete balance sheets and income statements.

We addressed the following question about financial data integrity:

- Are MnSCU colleges and universities using the accounting system to record financial accounting data that is reliable (complete, accurate, timely, and consistent)?

We reviewed fiscal year 1998 accounting transactions at the system office and all 36 colleges and universities. We separated the financial activity into four categories: payroll expenditures, non-payroll expenditures with a vendor number, non-payroll expenditures without a vendor number, and revenue transactions. Table 3-1 illustrates the scope of our testing.

Table 3-1
Internal Auditing Testing Scope

Type of Financial Activity	Absolute Value of FY 1998 Activity 1	Absolute Value of Tested Population 2	Transactions Tested
Non-Payroll Expenditures with Vendor Number	$1,789,595,634	$116,475,465	386
Non-Payroll Expenditures without Vendor Number	$680,937,228	$267,100,471	331
Revenue Transactions	$2,372,927,610	$754,505,160	355
Payroll Transactions	$611,422,003	$19,285,582	431
Total Financial Activity	$5,454,882,474	$1,157,366,678	1503

1. The financial activity includes cash transactions, adjusting entries, corrections, and transfer transactions. It is presented as absolute values showing the total value of all financial transactions whether positive or negative. Accordingly, these amounts do not represent net revenues and expenditures.
2. Sample elements were selected so that larger dollar transactions had a proportionally greater chance of being tested than smaller dollar transactions.

Source: Data extracted from MnSCU Accounting by the MnSCU Office of Internal Auditing

To determine the integrity of the financial activity, we tested financial transactions for the following attributes:

- object code,
- fund code,
- program code,
- occurrence date,
- timeliness of the payment to the vendor, deposit to the bank, establishing encumbrance for purchases, and entry into MnSCU Accounting, and
- for salary and travel expenditures, compliance to bargaining union agreements.

To address these questions, we interviewed staff at the system office and colleges and universities. We also analyzed financial transactions and reviewed supporting documentation for transactions to determine if they were properly coded and entered into MnSCU Accounting in a timely manner. The results of our testing are summarized in Table 3-2.

As shown in Table 3-2, the error rate for most attributes was relatively small:

- Program codes are a set of national standard codes for higher education. These codes are used to create the Integrated Post-Secondary Education Data System (IPEDS) report.

- Fund codes are used in MnSCU Accounting to distinguish the funding source. $28,902,981 of the fund code errors noted were isolated to one institution that coded federal bank loans to a clearing account, rather than an agency account. Other errors in fund coding represented only 1.67 percent of the sample.

- Object codes are used in MnSCU Accounting to categorize revenue, expenditure and balance sheet activity. Object codes are used as a management tool for reporting and cost allocation.

Table 3-2
Testing Results of Financial Transactions

Attribute Tested	Absolute Value of Sample Tested	Absolute Value of Errors Noted	% of Error in Sample
Program Code	$1,157,366,678	$9,526,491	0.82%
Fund Code	$1,157,366,678	$47,933,408	4.14%
Object Code	$1,157,366,678	$13,019,811	1.13%
Bank Code	$1,138,081,096	$733,175	0.06%
Transaction Type Code	$1,138,081,096	$366,670	0.03%
Occurrence Date	$1,138,081,096	$205,458,408	18.05%
Timely Entry to MnSCU	$1,138,081,096	$224,675,862	19.74%
Encumbrance	$383,575,936	$233,099	0.06%
Timely Vendor Payment	$383,575,936	$8,634,798	2.25%
Timely Deposit	$754,505,160	$4,799,124	0.64%

Note: Payroll expenditures were tested for program, fund, and object code attributes. Other attributes were system generated for payroll transactions and individual institutions cannot change coding.

Source: Auditor Prepared

- Bank codes are used by the institutions to separate local activity from treasury activity. Institutions must have specific statutory authority to maintain funds in a local bank account.

- Transaction type codes are used by colleges and universities to perform accounting functions, such as payment transactions or journal entries.

- A few purchased goods or services did not have a proper encumbrance. Colleges and universities are required to encumber funds prior to incurring a financial obligation.

- Some receipts were not deposited timely. Minnesota Statute requires colleges and universities to deposit receipts over $250 on a daily basis.

We did, however, note that colleges and universities and the system office routinely used improper occurrence dates. We also noted payments to vendors were not always completed timely. Several colleges and universities did not maintain adequate documentation for sensitive transactions, such as journal entries. MnSCU Accounting does not contain information complete enough to produce balance sheet information or to measure auxiliary enterprise net income. Finally, as discussed in Finding 10 in Chapter 5, problems with reconciling accounts continues to result in questionable cash amounts on MnSCU Accounting.

5. Occurrence dates have not been recorded properly, resulting in inaccurate accounts payable calculations.

The occurrence date is important for determining accounts payable for financial statements prepared by both MnSCU and the Minnesota Department of Finance. MnSCU Accounting allows the user to enter an occurrence date for each transaction. The occurrence date is supposed to be the date that the financial event occurred. For expenditures, the occurrence date is the date goods were received or last date services were rendered. As illustrated in Table 3-2, occurrence dates errors represented 18.05 percent of the sample tested.

In conversations with college and university staff, we found that most institutions pay close attention to occurrence dates only at the end of the fiscal year. Many institutions indicated that either they did not closely monitor or did not know they should monitor occurrence dates during the remainder of the fiscal year.

We noted several instances where colleges and universities did not monitor the date the goods were received or the date the event occurred. Instead, these institutions let the occurrence date default to the date of entry. Other institutions chose to use the invoice date for the occurrence date. Occurrence dates were also not reliable for summary entries originating from the Minnesota Student Information System (MSIS), College Information System (CIS) or legacy state university system.

In addition, we also noted several transactions that were coded with an occurrence date after June 30, 1998, although they were fiscal year 1998 transactions. For example, each fiscal year the system office incurs expenditures on behalf of the colleges and universities. At the end of the fiscal year, the system office will charge those expenditures back to the colleges and universities. We noted that system office employees routinely used an occurrence date after the fiscal year end to charge the expenditures to the colleges and universities. Colleges and universities often followed the example of the system office and did not change the occurrence date of the adjusting transactions. We also noted instances of internal reclassification of expenditures by the colleges and universities with occurrence dates after the fiscal year end. Transactions posted with an occurrence date past the fiscal year end are not recognized in the determination of the State of Minnesota financial statement accruals.

Recommendation

✓ *The importance of accurate occurrence date coding must be emphasized.*

6. Some financial transactions are not recorded timely.

Many colleges and universities did not record financial transactions in MnSCU Accounting timely. We noted delays in the recording of expenditure and payment transactions, general receipt transactions, student information system receipts and disbursement transactions, and appropriation receipt transactions. We also noted delays in payments to vendors. Table 3-3 illustrates the range in the number of days it took to record financial activity that experienced delays.

Colleges and universities had difficulty recording several different financial transactions timely. Our testing indicated the following timing issues when recording financial transactions:

- Late expenditure transactions ranged from 23 days to 166 days.
- Late receipt transactions ranged from 15 days to 78 days. Recording receipt transactions into MnSCU Accounting results in the State Treasurer transferring state funds from local bank accounts into the state treasury. Delays in recording these transactions, result in funds not being transferred into the state treasury timely.
- Financial transactions originating from the Minnesota Student Information System (MSIS), College Information System (CIS) or the legacy state

Table 3-3
Number of Days to Record Late Financial Transactions

Type of Financial Activity	Days to Record Transactions
Expenditure/payment transactions	23 days to 166 days
General receipt transactions	15 days to 78 days
MSIS/CIS/Legacy System receipts/disbursements	3 days to 45 days
Appropriation receipt transactions	23 days to 6 months
Payments to vendors after invoice due date	10 days to 67 days

Source: Auditor Prepared

university system were not recorded daily. During fiscal year 1998, most colleges and universities were using MSIS, CIS or the legacy state university system to register students for classes, record tuition payments and disburse financial aid. Some institutions posted disbursements and revenue in summary for the previous week or month, rather than posting daily activity. Beginning in fiscal year 2000, all colleges and universities should be using the new student information system, which should eliminate this issue.

- Delays in recording appropriation revenue ranged from 23 days to six months. Ideally, colleges and universities should post appropriation receipts when the system office transfers the funds. Delays in recording appropriation revenues affect budget reports and the ability to monitor financial operations. In addition, colleges and universities may experience difficulties reconciling MAPS to MnSCU.

- We noted several payments to vendors that were not timely. State law suggests that vendors should be paid by the vendor invoice date or within 30 days of receipt of invoice for services rendered or goods received. However, we noted several instances where payment was made after the invoice due date or after the 30 day timeframe. Delays ranged from 10 days to 67 days past the vendor due date. Untimely payments could create a negative impact to the institution's ability to monitor financial operations. In addition, colleges and universities could fall out of good standing with vendors for consistently late payments. Finally, institutions may incur finance charges for late payments.

As shown in Table 3-2, 19.74 percent of revenue and expenditure transactions tested were not recorded timely. This can create problems for reconciling MnSCU Accounting to bank accounts. In addition, reports to management or the Board of Trustees do not reflect up-to-date financial activity.

Recommendation

- ✓ *Standards must be developed and performance monitored to ensure that financial transactions are recorded on a timely basis.*

7. Supporting documentation for some transactions was incomplete.

Many colleges and universities did not have appropriate supporting documentation for some sensitive transactions, such as journal entries. Often, colleges and universities presented computer screen prints of the financial transaction as supporting documentation. MnSCU Accounting was not designed to be a paperless system. Therefore, the system does not have the ability to provide detailed transaction descriptions or transaction authorizations. The screen prints did not serve as sufficient documentation.

Journal entries are particularly sensitive since they normally are used to adjust transactions. Therefore, it is important to maintain sufficient documentation to justify the purpose and authorization of the transaction, as well as how the amount was determined. For example, we noted journal entries that were created to move funds from one cost center or general ledger to another. These transactions often did not include supporting documentation as to how the amount of the transaction was determined or show authorization for the transaction.

A process should be developed to ensure appropriate documentation is available for all journal voucher transactions. For example, a best practice would be use of a form that includes the following information: purpose of the transaction, date of transaction, name of the originator, signature indicating independent review and approval of transaction, and the amount of the transaction. Supporting documentation should be attached to the journal voucher form. The forms should be filed for reference purposes.

Another area where a few colleges had insufficient supporting documentation was with employee appointments. Personnel and payroll information is maintained in SCUPPS for all employees. Human resources employees enter appointment information into SCUPPS. The appointment record shows the salary details for the employee such as bargaining union, step in the bargaining union contract, rate of pay, and length of the appointment. A few colleges and did not keep additional documentation regarding employee appointments, such as appointment letters.

As with MnSCU Accounting, SCUPPS was not designed to be a paperless system. Therefore, maintaining appointment information solely in SCUPPS does not provide adequate documentation. For example, changes can be made to an employee appointment during a current fiscal year. The appointment change will override and erase the existing appointment without storing the changes. Human resource employees can enter electronic notes when an appointment change is made, however, electronic notes are not required. Consequently, it is possible for unauthorized appointment changes to be made. Colleges and universities risk inappropriate appointment increases when additional documentation, such as appointment letters, are not maintained.

Recommendation

✓ *Adequate supporting documentation must be developed to support transactions, particularly sensitive transactions.*

8. Accounting operations lack the discipline of regularly recording the necessary information to produce complete information on financial condition, e.g. balance sheet accounts, or to measure net income from auxiliary enterprises.

MnSCU Accounting was designed to focus primarily on daily operations such as recording receipt and expenditure transactions. Regular procedures have not been developed to generate complete balance sheet information for accounts such as investments, equipment, land and buildings, compensated absences, credit memos or fund balances.

- **<u>Investment Balances:</u>** Colleges and universities generally do not rely on MnSCU Accounting to track investment balances. Institutions have developed internal spreadsheets to track investments on a daily or monthly basis and enter irregular updates to MnSCU Accounting. As a result, accounting reports do not accurately reflect investment activity on an interim basis.

- **<u>Equipment Balances:</u>** Technical Colleges have found it difficult to provide proper equipment balances. In the transition of Technical Colleges into State Government audit report (August 1996), the Office of the Legislative Auditor cited 19 technical colleges and consolidated institutions as unable to provide adequate accountability over equipment. As of the end of March 1999, four of these colleges have still not recorded all inventory balances in the equipment system. In addition, seven colleges have not completed recent physical inventories to verify that inventory of equipment is accurate. Therefore, equipment accounts recorded on MnSCU Accounting are incomplete.

- **Land and Building Balances:** The system office maintains the land and building account balances centrally. MnSCU Accounting has balance sheet codes to record land and building. However, these codes are not used at the college and university level to track land and building balances. Some colleges and universities use manual spreadsheets to track land and building balances.

  At fiscal year end, the system office sends each college and university a report requesting the accounting staff to review and verify the balances for the preparation of financial statements. Because land and building asset balances are not recorded at the institution level, colleges and universities are unable to provide accurate balances for interim financial statements.

- **Compensated Absence Balances:** We noted problems encountered by colleges and universities in recording accurate balances for compensated absences. MnSCU requires the use of SCUPPS to maintain leave balances. However, some of the colleges and universities do not use SCUPPS to maintain faculty and MnSCU administrator leave. Instead, these colleges and universities track leave in manual spreadsheets and post year-end balances into SCUPPS. A manual system is more susceptible to clerical errors. Table 3-4 shows a summary of the colleges and universities that use SCUPPS to maintain faculty and MnSCU administrator leave balances.

  Colleges and universities use manual spreadsheets to calculate leave for various reasons. For example, personal leave for faculty and MnSCU administrators creates a negative balance as the leave is used. At the end of the fiscal year, the colleges and universities need to zero out the negative balances for used personal leave. Also, some colleges and universities have had problems using SCUPPS to track adjunct faculty leave.

  For financial statements, compensated balances are obtained from the leave accrual balances in SCUPPS on June 30th of each year. For the institutions that do not use SCUPPS to track faculty and administrator leave, a manual entry is required to update leave balance records. If the SCUPPS system is not used to track faculty and administrator leave, the liability for compensated absences is not easily calculated during the fiscal year.

  In addition, the financial statements do not properly reflect the liability for post-retirement employee benefits. Colleges and universities can budget for post-retirement employee benefits, such as insurance, in the current fiscal year. However, the payments are only reflected as expenditures in the income statement. The system office does not obtain post-retirement employee benefit liabilities from the colleges and universities. Therefore, this information is not included as a liability in the balance sheet.

- **Credit Memos:** Colleges and universities have the ability to enter credit memos into MnSCU Accounting. The credit memo entry will create the appropriate balance sheet receivable. As the credit memos are used, the check-writer system will reduce the amount of the check written by the credit memos.

  Some colleges and universities do not use the credit memo process for bookstore activity. Instead, these institutions track credit memos in a manual ledger or spreadsheet. At fiscal year end, the college or university makes an entry into the accounting system for the year end balance of credit memos. Therefore, the balance sheet accounts do not reflect accurate activity throughout the fiscal year. In addition, a manual system of tracking credit memos is more susceptible to error and may result in credit memos being unused.

- **Fund Balances:** College and university fund balances cannot be relied upon because they are not updated on a regular basis. Current fiscal year fund balances are not accurate until prior fiscal years have been closed and fund balances changes are recorded in the new fiscal year. The system office is responsible for closing the fiscal year and rolling forward the changes in fund balance.

  The system office did not close out fiscal year 1996 until approximately October 1998. In addition, fiscal years 1997 and 1998 have not been completely closed (although colleges and universities cannot make accounting entries to those fiscal years). Therefore, colleges and universities are unable to run reports that provide accurate fund balance information.

Also, accounting for enterprise fund activities is incomplete on the financial systems.

MnSCU Accounting does not adequately measure financial results for enterprise fund activities. Colleges and universities are forced to prepare manual profit and loss statements for the enterprise fund activities since MnSCU Accounting is unable to account for the activity and provide an adequate report. A few colleges and universities have not prepared manual profit and loss statements and have been cited in OLA audit reports for not producing income statements for enterprise activity, determining if the markup is reasonable, and reviewing profits and fund balances.

For those institutions that do prepare manual income statements, the institutions must manually calculate the cost of goods sold. In addition, MnSCU Accounting does not calculate depreciation or update the general ledger for gain or loss on sale of equipment in the enterprise fund. Manual adjustments are required to record depreciation or gain/loss on sale of equipment.

Also, MnSCU Accounting does not update the balance sheet object codes for inventory purchases or reductions. Instead, the system requires the balance sheet to be manually adjusted to reflect changes in inventory. Although the institutions may prepare the adjusting entries at any time, they are generally performed only at fiscal year end. This entry increases the balance sheet inventory account and reduces the cost center expenditures for resale activity.

Recommendations

- ✓ *Compensated absence liabilities and post-retirement employment benefits must be measured and recorded on the accounting system periodically.*
- ✓ *Fixed assets, such as plant and equipment, must be recorded on the accounting system.*
- ✓ *Credit memos for bookstores must be recorded as assets on the accounting system.*
- ✓ *Prior fiscal years need to be closed in a more timely manner so that fund balances are presented accurately.*
- ✓ *The capacity to calculate and record business type expenses, such as cost of goods sold and depreciation expense must be developed.*

Table 3-4
Faculty and Excluded Administrator Leave

Institution	Faculty Leave Maintained in SCUPPS	MnSCU Administrator Leave Maintained in SCUPPS
Alexandria Technical College	No	Yes
Anoka Hennepin Technical College	Yes	Yes
Anoka Ramsey Community College	No	No
Bemidji State University	Yes (except for Personal leave)	Yes (except for Personal leave)
Central Lakes College	Yes	No
Century Comm/Tech College	No	Yes
Dakota Technical College	No	Yes
Fergus Falls Community College	No	Yes
Fond du Lac Community College	No	No
Hennepin Technical College	Yes	Yes
Hibbing Comm/Tech College	Yes	Yes
Inver Hills Community College	Yes	Yes
Itasca Community College	Yes	Yes
Lake Superior Comm/Tech College	Yes	Yes
Laurentian Comm/Tech College	Yes-part time tracked manually	Yes
Minnesota State University, Mankato	Yes	Yes
Metro State University	No	Yes
Minneapolis Comm/Tech College	Yes	Yes
Minnesota West Comm/Tech College	Yes	Yes
Moorhead State University	Yes	Yes
Normandale Community College	Yes	Yes
North Hennepin Community College	Yes	Yes
Northland Comm/Tech College	No	No
Northwest Technical College	Yes	Yes
Pine Technical College	Yes	Yes
Rainy River Community College	Yes	Yes
Redwing/Winona Technical College	No	Yes
Ridgewater Comm/Tech College	Yes	Yes
Riverland Comm/Tech College	Yes	Yes
Rochester Comm/Tech College	Adjusting entry entered at year end	Adjusting entry entered at year end
South Central Technical College	No	Yes
Southwest State University	Yes	Yes
St. Cloud State University	Yes	Yes
St. Cloud Technical College	No	No
St. Paul Technical College	No	No
Winona State University	Yes	Yes
System Office	Yes	Yes

Source: Interviews with college and university payroll and human resources staff.

Chapter Conclusion

Colleges and universities did not record data in a consistent manner, hampering the ability to produce reliable comparative data. Data consistency is a major concern for the new budget allocation model. The system office has established a series of study groups to address the data inconsistencies and provide improved guidance. A formal structure must be established, however, to ensure that guidance is developed, communicated, and implemented effectively.

Financial data that is classified and summarized in a similar manner will allow decision-makers to compare the financial activities between colleges and universities. The Board of Trustees, system office, legislature and others are interested in comparative financial data on the colleges and universities. The system office, which has access to all institutions' financial data, prepares various reports for both internal and external users. These reports may be a consolidation of all system-wide information or an aggregation based on one or more of the data elements. The MnSCU allocation model must have consistent financial data in order to distribute funds as intended. The system office must also be able to respond to information requests from trustees and legislators on spending questions on areas such as technology, counseling, remedial education, and many other areas.

We addressed the following question about financial data consistency:

- Is the financial accounting data classified and organized in a manner that will allow for meaningful summaries and comparisons?

We interviewed the accounting staffs at each institution to determine how certain types of transactions were recorded on the accounting system.

9. Financial data was not recorded in a consistent manner between colleges and universities.

Table 4-1 shows significant coding inconsistencies between colleges and universities. We also found other fundamental differences in recording transactions. For example, universities generally distribute administrative expenditures such as telephone costs to separate departments, however, most two-year colleges charge such costs to one common cost center.

When MnSCU Accounting was implemented in July 1995, colleges and universities were given limited guidelines on how to record transactions. Training on using the accounting system concentrated on implementing basic daily operations. The significance and use of each particular data element was not well understood. The technical colleges faced a particularly difficult challenge because they had just become part of state government. It was also a new system to the community colleges and state universities. Furthermore, the community colleges were accustomed to having most accounting tasks completed by the former community college central office; after the merger, they were required to do more tasks locally.

MnSCU Accounting is complex with many data elements and fields available for each

Table 4-1
Consistency Testing Of Certain Transaction Types

Transaction Type	Consistency of Classifications		
	Appropriation	Fund Code	Program Code
Customized Training Revenue for credit courses applicable towards a degree	C	3	8
Customized Training Revenue for hour based training offered to a targeted customer group	C	3	7
Community Education Revenue (courses not part of a degree, diploma or certificate program)	3	5	8
Customized Training Expenditures	C	4	7
Customized Training Expenditures for hour based training offered to a targeted customer group	C	4	6
Community Education Expenditures (courses not part of a degree, diploma or certificate program	3	6	7
Athletic Camp/League Revenue	4	6	5
Parking Fee Revenue	3	5	6
Postage Expenses for academic departments	2*	3*	8*
Phone Expenses for academic departments	3*	3*	7*
Salary expenses for academics departments	3*	3*	5*
Salary expenses for operational departments	4*	5*	*
Child Care Center revenue	4	5	6
Child Care Center expenditures	5	6	6
Summer School revenue	C	2	5
Summer School expenditures	C	2*	5*

Legend:
C - Consistent across all institutions who had this type of activity.
Numeric - Number of different codes used.
* - Some institutions coded these activities to all appropriations, HEB, funds and programs.

transaction – cost centers, bank accounts, activity codes, appropriation codes, fund codes, grant/projects records, object codes, organization codes, program codes, subprogram codes, tax indicator codes and user fields. The complexity of the accounting systems resulted in colleges and universities developing disparate solutions for coding financial transactions.

Recognizing the importance of consistent data standards, the system office has developed the MnSCU Allocation Framework Transition Study Plan. It is intended to obtain input from the institutions and develop standards system-wide. This study plan involves eleven study groups with system-wide representation to look at various aspects of the allocation model. These study groups were either identified by the Allocation Implementation Committee or are a result of issues raised at public hearings held throughout the state. Table 4-2 shows the study groups, their respective assignments, and timelines.

The Allocation Framework Study Plan anticipates that the Allocation Implementation Committee, the Presidential Allocation Review Committee, the Chancellor, and finally the Board of Trustees will review draft standards. The Data Integrity Group has recently finished new definitions for program codes. Because this group had already been formed prior to the Allocation Framework Transition Study Plan its review and approval process was slightly different. The new program definitions were distributed in a memorandum signed by the Vice Chancellor for Finance.

The development of clear, accepted standards is a precursor to establishing consistent financial data. To ensure general acceptance of these standards, the development process must provide a wide exposure of its proposals. All colleges and universities must be given the opportunity and ample time to comment on proposed standards. Finally, a systematic method for communicating final standards is needed. The standards will serve as an important reference tool that must be readily accessible when the institutions are making decisions about how to code their accounting transactions.

Recommendations

- ✓ *MnSCU must continue the efforts of the study groups and ensure that their efforts are completed timely.*
- ✓ *To ensure that guidelines are generally accepted, MnSCU must establish and maintain an appropriate due process for developing, reviewing, and approving data standards.*
- ✓ *A structure must be established and maintained to ensure that the guidance developed by the study groups are communicated and implemented effectively.*

Table 4-2
MnSCU Allocation Framework Transition Study Groups

Framework Study Group [Target Completion Date]	Assigment
Access Adjustment Process [June 2000]	Analyze specific institutions, programs or services which may have unique costs associated with providing access and create a process to review and grant an "access adjustment".
Adequacy of Funding [June 2000]	Complete a peer analysis annually and determine if there are alternative measures for addressing adequacy and quality from a system perspective.
Classification of Instructional Programs (CIP) Usage [January 2000]	Look at current practice and create guidelines for CIP usage.
Core Administration Adjustments [April 2000]	Attempt to quantify the concept that portions of administrative costs are fixed and that any higher education institution must offer a "minimum" level of service.
Core Instruction [April 2000]	Determine if any portion of instruction costs are fixed and quantify this concept: in addition examine sector differences.
Data Integrity [January 2000]	Provide a consistent coding format for all MnSCU institutions.
Enrollment Definitions [July 1999]	Analyze the current definition of enrollment and related issues and how it affects or should affect an institution's cost structure.
Facilities Maintenance & Operations [August 2000]	Attempt to create a model for funding of the physical plant using the system-wide data set being developed by the facilities unit. State policy and national benchmarking data will be used.
Level of Instruction [January 2000]	Determine the approach for allocating costs to lower division, upper division and graduate levels of instruction.
Library Funding [January 2000]	Attempt to create a model for funding libraries using current expenditure data compared to national data and benchmarks.
Revenue Analysis [July 1999]	Analyze the source and use of "other" revenue and look at its allocation to specific functional areas.

Source: Summarized from the *MnSCU Allocation Framework Transition Study Plan* - Draft, dated April 14, 1999, which was developed by the system office budget unit.

Chapter Conclusions

> ***Colleges and universities have struggled to maintain effective and efficient business practices, partly due to the administrative demands of the financial systems. As a result, internal controls have not received the necessary attention.***

Reliable financial data is the product of a disciplined accounting operation that has maintained effective internal controls. As internal controls deteriorate, the possibility of accounting errors increases. Although, it was not a primary objective of this study, we felt it was vital to consider the following question:

- Are colleges and universities experiencing any common problems or challenges in recording accounting financial data, e.g. reconciliations?

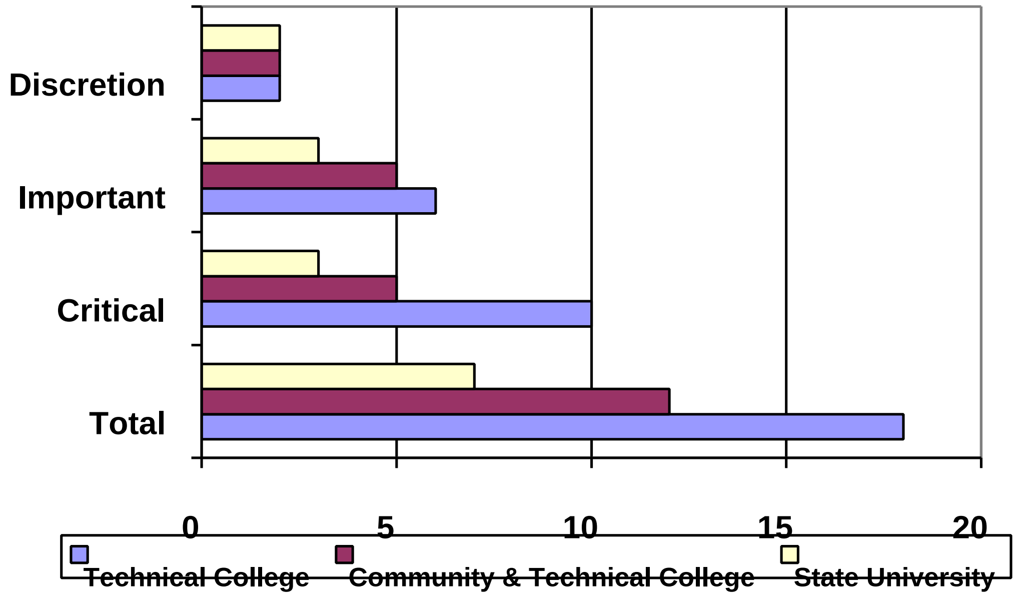
To address this question, we relied on our observation while testing the accounting data and analyzed prior Office of the Legislative Auditor (OLA) reports. Since the merger and through January 1999, the OLA has issued 32 financial audit reports. Since fiscal year 1996, MnSCU has had a contract with the OLA to conduct comprehensive financial audits of its colleges and universities.

Figures 5-1 and 5-2 compare the average number of audit findings by type of institution for audits covering both fiscal year 1996 and 1997, the first two years of the contract. It is somewhat surprising that the average number of audit findings has remained constant by type of institution. The OLA is currently in the process of completing audits of the remaining colleges and universities.

As the organization becomes more stable and colleges and universities gain experience with the new business systems one would expect to see the average number of audit findings decline. Since the merger, however, the MnSCU information systems have experienced continual change. As business offices have struggled to learn and implement constant system changes, attention is diverted from the maintenance of basic internal controls.

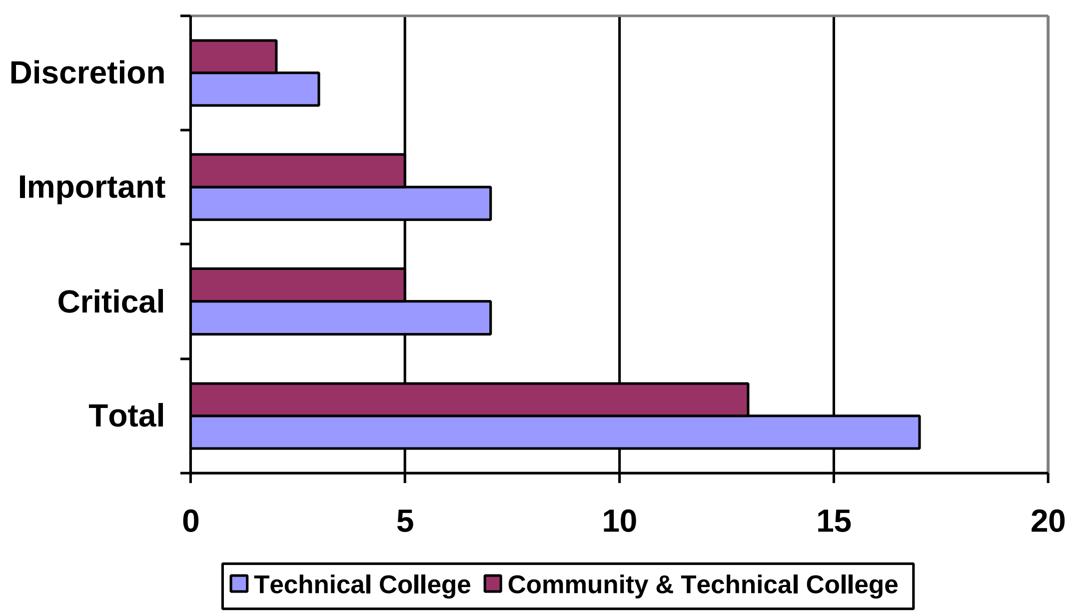
Furthermore, all institutions have not experienced the same level of success with the financial systems. Colleges and universities operating with the most success generally have employees with more extensive accounting and information system educational backgrounds and larger staff sizes. The system office is currently studying the administrative structure and staff sizes of business offices. It hopes to identify a model for maintaining effective financial management practices.

Figure 5-1
Office of the Legislative Auditor Findings
College and University Averages – Fiscal Year 1996



Note: The chart includes statistics on 12 comprehensive audits of MnSCU colleges and universities. The Legislative Auditor issued these reports between October 1996 and September 1997. The graphic does not include the results of the system-wide audits issued during that time period.

Figure 5-2
Office of the Legislative Auditor Findings
College and University Averages – Fiscal Year 1997



Note: The chart includes statistics on 13 comprehensive audits of MnSCU colleges. The Legislative Auditor issued these reports between October 1997 and November 1998. The graphic does not include the results of the system-wide audits issued during that time period. Source: Office of Internal Auditing Follow-up Activity Report Fourth Quarter 1998

Analysis of the OLA reports shows the most common areas cited for audit findings. Tables 5-1 and 5-2 compare audit finding areas from the fiscal year 1996 and 1997 audit reports.

In summary, despite the best efforts of college and university employees, persistent problems remain with basic internal control processes. Accordingly, decision-makers should be cautious about relying on financial reports until these problems are resolved.

10. The accuracy of recorded cash accounts has not been verified with regular reconciliations.

Internal control at a college or university requires many of the procedures applicable

Table 5-1
Office of the Legislative Auditor Findings
By Problem Type
Fiscal Year 1996 & 1997

	FY 1996		FY 1997	
Problem Type	Total	Critical	Total	Critical
Cash Management	21	12	41	19
Separation of Duties	21	19	30	23
Reporting	29	10	20	9
Reconciliations	21	13	24	10
Compliance	47	1	23	4
Security & Access	14	13	13	8
Inventory	7	3	10	1
Other	19	8	34	6
Totals	179	79	195	80

Source: Office of Internal Auditing Follow-up Activity Report Fourth Quarter 1998

Table 5-2
Office of the Legislative Auditor Findings
By Financial Exposures
Fiscal Year 1996 & 1997

	FY 1996		FY 1997	
Problem Type	Total	Critical	Total	Critical
General Financial Management	32	23	40	23
Tuition & Fee Revenue	37	21	39	21
Payroll	13	5	16	3
Purchases	16	2	19	4
Bookstore	19	11	28	10
Other Auxiliary Enterprises	15	9	2	1
Financial Aid	44	8	46	18
Others	3	0	5	0
Totals	179	79	195	80

Source: Office of Internal Auditing Follow-up Activity Report Fourth Quarter 1998 to commercial entities. This includes, but is not limited to, a sound bank reconciliation process. Table 5-1 summarizes the bank reconciliation status as of December 31, 1998 by college and university.

- Overall, 64% of MnSCU colleges and universities (23 of 36) had not successfully reconciled their local bank account statement to MnSCU Accounting.

- 76% of MnSCU colleges and universities (13 of 17) who were using the new Accounts Receivable system did not successfully reconcile their local bank account statement to MnSCU Accounting.

- 53% of the MnSCU colleges and universities (10 of 19) who were not using the Accounts Receivable system did not successfully reconcile their local bank statement to MnSCU Accounting.

Although not limited to the reconciliation of cash accounts, of the 48 critical OLA audit findings that were unresolved at March 31, 1999, 15 (31.3%) fell into the *reconciliation* category. As of March 31 1999 the average age of the critical unresolved *reconciliation* audit findings was 359 days.

Untimely and incomplete bank reconciliations make an organization more vulnerable to losses from fraud. An organization may be responsible for any losses attributable to check fraud if it reasonably should have been discovered through the bank reconciliation process and the review of cancelled checks. Under Uniform Commercial Code, Minnesota Statutes Section 336.4-406, customers must reconcile their bank statements within a reasonable time to detect unauthorized checks. A reasonable time is typically defined as not more than 30 days of receiving the bank statement.

College and university officials commonly cited the following as barriers preventing them from successfully reconciling their local bank account statements to MnSCU Accounting in a timely and efficient manner:

- Consolidation of local bank accounts,
- Use of the recently implemented Accounts Receivable system,
- Time constraints and staffing shortages,
- Inability to generate outstanding check reports as of a specific date,
- Outstanding check reports do not include check dates,
- Need to generate a second, stand alone, outstanding check list for institutions, processing disbursements using a second system (e.g., CIS system),
- Inconsistency when the State Treasurer removes state funds from local bank accounts,
- Discrepancies in the cash disbursement and the payment amount denoted on the standard reports, and
- Transactions posted within the accounting period with occurrence dates, outside of the accounting period cannot be easily identified.

As a result, colleges and universities often developed creative, but operationally inefficient, workarounds in an attempt to reconcile their bank accounts. Despite the best efforts of business offices, the end product was frequently a bank reconciliation that contained unidentified reconciling items.

The system office staff believes that the difficulties currently encountered by

Table 5-3
Status of Bank Reconciliations
As of December 31, 1998

College and University	December 1998 Bank Reconciliation Complete?	If No, Last Complete Reconciliation?
Institutions Using New Accounts Receivable System		
Anoka Hennepin Technical College	Yes	N/A
Minnesota West Comm/Tech College	Yes	N/A
St. Paul Technical College	Yes	N/A
Winona State University	Yes	N/A
Metro State University	No	Prior to July 1995
Pine Technical College	No	Prior to July 1995
Red Wing / Winona Technical College	No	Prior to July 1995
St. Cloud Technical College	No	Prior to July 1995
Moorhead State University	No	June 1997
Bemidji State University	No	August 1997
Hennepin Technical College	No	January 1998
Rochester Comm/Tech College	No	June 1998
South Central Technical College	No	June 1998
St. Cloud State University	No	June 1998
Northwest Technical College	No	July 1998
Alexandria Technical College	No	August 1998
Dakota Technical College	No	November 1998
Institutions NOT Using New Accounts Receivable System		
Century Comm/Tech College	Yes	N/A
Fond du Lac Tribal & Community College	Yes	N/A
Inver Hills Community College	Yes	N/A
Itasca Community College	Yes	N/A
Lake Superior College	Yes	N/A
Minneapolis Comm/Tech College	Yes	N/A
Minnesota State University, Mankato	Yes	N/A
Normandale Community College	Yes	N/A
Riverland Comm/Tech College	Yes	N/A
Northland Comm/Tech College	No	June 1995
Anoka Ramsey Community College	No	Various
Central Lakes College	No	Prior to July 1995
North Hennepin Community College	No	Prior to July 1995
Ridgewater Comm/Tech College	No	Prior to July 1995
Fergus Falls Community College	No	May 1998
Rainy River Community College	No	May 1998
Hibbing Community College	No	June 1998
Laurentian Comm/Tech College	No	August 1998
Southwest State University	No	October 1998

Source: Information provided by MnSCU colleges and universities and compiled by Office of Internal Auditing individual colleges and universities in reconciling their local bank account statement to MnSCU Accounting are further aggravated because colleges and universities:

- Do not utilize the full capabilities of the system,
- Process transactions with inaccurate occurrence dates,
- Fail to record transactions into MnSCU Accounting on a timely manner, and
- Post summary information into MnSCU Accounting while processing detailed transactions in a subsystem(s). As indicated in Chapter 2, solving the bank reconciliation problem is the top priority of the accounting user group. The system office has collaborated with a sub-committee of the accounting user group to discuss the reconciliation of local bank accounts to MnSCU Accounting.

System office personnel have also worked closely with representatives of one MnSCU institution in an attempt to assess the current situation and develop a process that will enable the successful reconciliation of their bank statement to MnSCU Accounting. As a result, several Microsoft Access queries have been developed and can be used on the institutions' replicated databases to assist with this task.

During May and June of 1999, the campus accounting unit will also be offering bank reconciliation troubleshooting sessions for colleges and universities.

Recommendation

✓ *MnSCU must develop precise procedures to assist colleges and universities with reconciling cash to bank balances.*

11. Some payroll transactions, such as computing back pay for UTCE employees, are not supported by the financial systems. Manual calculations should be avoided, except for unique cases that do not merit automation.

At one college, we noted an extensive effort to manually compute employee back pay for employees covered by the UTCE bargaining agreement. The OLA audit reports yielded instances where manual payroll computations resulted in erroneous payments. Inquiries to other colleges and universities revealed that payroll transactions requiring manual computation fall into one of two broad categories.

- Retroactive pay associated with a previous fiscal year, or
- Severance or separation pay (e.g., vacation liquidation and cash payments for accumulated but unused sick leave due to retirement or resignations).

The formula for computing retroactive pay on base duty pay is further complicated by:

- Multiple assignments,
- Overload pay,
- Additional duty days, and
- Salary unit step advances.

Also, each bargaining agreement contains unique terms and conditions pertaining to severance or separation pay. In a manual environment, the added complexity increases the risk of error.

Recommendation

- ✓ *Automated methods of calculating items such as back pay should be developed and made available to the colleges and universities when cost effective.*

12. System security needs further improvements.

The Office of the Legislative Auditor issued an Information Security Review (OLA Report 97-46) in August 1997. It contained seven findings and several recommendations. The Board of Trustees was gravely concerned with the security risks revealed by the report. Internal Auditing completed a follow-up review in March 1998 and found that two of the seven findings had been resolved completely, but additional actions were needed to resolve the other five findings. Subsequent follow-up reviews show that another two findings have been resolved. The system office has made significant progress toward resolving the final three findings, but final resolution will not be achieved until a full-time security administrator is hired and security policies are established. The Chief Information Officer had hired a security administrator, but the person resigned after only a few months and the position remains vacant.

In conjunction with its comprehensive audits of MnSCU's colleges and universities, the OLA has commonly cited that colleges do not adequately monitor user access to the college accounting systems. As shown in Table 5-1, 13 findings in fiscal year 1997 and 8 findings in fiscal year 1998 cited concerns with system security.

These findings commonly occur because a college or university has not assigned primary responsibility over security access. Furthermore, standard security reports are very voluminous and difficult to comprehend.

Recommendations

- ✓ *Clear responsibilities for system security must be established at both the system office and the colleges and universities.*

- ✓ *System clearances must be monitored regularly to ensure they remain current and appropriate.*

- ✓ *Security reports should be simplified so that colleges and universities can use them as effective control tools.*

13. Excessive separation of duties problems continue to exist.

The most common critical problem cited in OLA reports (see Table 5-1) are inadequate separation of duties. For audit reports on fiscal year 1997, 23 of 80 (29%) critical audit findings were separation of duties problems. These problems often occur because college and universities have not designed appropriate procedures nor carefully assigned critical financial duties.

Business practices should enhance the integrity of authorizations, recordings, and custody. One employee should not have control over an entire process or transaction cycle.

The financial area usually exposed to errors or irregularities because of these problems is cash receipts. In fact, thefts and embezzlements have occurred as a result of inadequate separations of duties or poor cash management. OLA audit reports also commonly cite financial exposure resulting from inadequate separation of duties within the customized training and bookstore areas.

Even when colleges and universities respond quickly to correct problems found with duty assignments it has been observed that adequate separations are prone to deteriorate over time. This occurs for several reasons including but not limited to:

- Realignment of responsibilities resulting from employee turnover or absences,
- Limited staffing,
- Turf or cultural issues, and
- Gravitation back to old processes and habits.

Time constraints often prevent the CFO from periodically reviewing the appropriateness of current duty assignments. Nonetheless, these problems are avoidable if additional effort is devoted to analyzing personnel assignments on a regular basis.

The MnSCU Office of Internal Auditing is designing a diagnostic tool to assist colleges and universities with their periodic review of the adequacy of separations of duties. Ideally, this tool will enable colleges and universities to ensure that an adequate set of checks and balances continues to exist over sensitive financial transactions.

Recommendation

✓ *Colleges and universities must conduct periodic self-assessments of control procedures to ensure that effective internal controls are maintained.*

Chapter Conclusions

Financial reporting functionality is inadequate. Standard reports are underutilized due to system deficiencies. Furthermore, the systems were not designed to produce balance sheet information or include a decision support system or executive information system. As a result, off-line reporting is prevalent for management information needs. Reports produced for external audiences show significant variances because of definitional and measurement differences.

The value of data is essentially measured by its usefulness. MnSCU Accounting offers a selection of over 200 standard reports for extracting data from the system. We addressed two questions pertaining to reporting:

- To what extent are existing standard accounting reports being used?
- What tools and techniques are used to support ad-hoc reporting needs?

We interviewed college and university accountants and found that users considered the standard reports to be difficult and confusing. Accordingly, most users had developed off-line reporting mechanisms to compensate for the system's shortcomings. Also, many users are learning to program ad-hoc data queries against a copy of their database in order to meet their reporting needs.

14. Users experience significant problems with existing standard reports available from the financial systems.

While many standard accounting reports are being relied upon for daily operating and expenditure control, the reports often do not provide users with the right amount of information and the best format of the data. Users find the MnSCU reports to be difficult to read and either providing far too much detail or being too summarized.

Information that institutions cannot easily obtain from system reports includes: total revenue and expenditures including budgeted and actual amounts, financial position, projections, forecasting, comparative historical data, carry-forward balances, financial statements for auxiliary services, accounts receivable for non-term customers, equipment, repair and replacement, and customized training. It is difficult, for example, to obtain information to do projections on payroll expenses.

Shortcomings in the existing reports include the inability to sort by user-defined parameters, the lack of totals and subtotals, and the inability to generate reports with a user-defined cut-off date (such as an outstanding check list or a trial balance).

Another shortcoming is the lack of a 'print preview' option. The only way to determine if a report might be useful is to request and print it. The user does not know if the report will contain 1 page or 1,000 pages. Sometimes, a user may only need the total of an account but must print a several-page document to obtain it. A 'print preview' of the report would show the user what information is included in the report, how many pages it will be and the report totals.

Standard system reports are not well-defined. For example, users do not know when requesting a report what will be generated because adequate documentation does not exist. Reports are generated on a 'hit and miss' basis and much paper may be wasted while users search for needed information. Users do not know what parameters to specify when requesting reports.

There is a help function on-line for generating reports, but it is not operational for most reports.

Recommendation

✓ *Opportunities to enhance the user friendliness of standard reports should be explored. Potential enhancements include on-line report viewing, developing consistent definitions for report parameters, and on-line help. The investment in these enhancements should depend, however, on the future direction chartered by the MnSCU information technology governance structure as discussed in Chapter 2.*

15. Off-line reporting is prevalent for management information needs.

Most colleges and universities do some type of off-line reporting, because of the reporting limitations with the MnSCU financial systems. The two most common methods used for off-line reporting are:

- MnSCU reports are generated to obtain account totals and these totals are keyed into a spreadsheet. Approximately 83% of the institutions reported that they hand enter and manipulate data to generate reports that are easier to read and understand. The data is summarized and consolidated on one or two pages versus a stack of paper. One institution reported that this process takes about four hours per month and another said it sometimes takes an entire week. The task of re-creating 'user-friendly' reports is time consuming and leaves more room for error.

- Very specific, user-defined, reports can be prepared by extracting data from the institutions' replicated database. Day-old production data is housed in a replicated database. Using a software tool, such as Microsoft Access 97, day-old production data is linked from the replicated database to a table in Access. The table is used to write a 'query' that allows the user to extract, merge, and manipulate data in virtually any format. The query can then be used to generate reports in nearly any format and include essentially any information desired. While this may be a viable reporting option, there are inherent risks due to the complexity of the process.

Each replicated database contains approximately 800 tables of information with several fields of data within each table. Because of this enormous amount of information, it is a challenge to link related fields together and produce accurate reports. Without a good understanding of the data, proper training, and a good process to verify the data within a report, it is likely that data will be gathered in a meaningless way and reports will not be accurate.

Adequate documentation is not available to those who generate reports from the replicated databases. A comprehensive data dictionary needs to be developed and distributed. This dictionary should define the tables and fields within the database as well as relationships between those tables. The ITS division is in the early steps of completing the dictionary.

Recommendation

✓ *Best practices for measuring financial condition and fund financial statements should be evaluated. To the extent possible, standard reports should be developed to satisfy recurring management information needs.*

16. Reports for external audiences show significant variances because of definitional and measurement differences.

Table 6-1 presents a sample of reports generated for internal and external users based on data obtained from MnSCU Accounting. The table provides some general comments on these reports, including how they were prepared. On the surface, these reports present differing amounts for the same items, such as fund balances. Even though these differences are often explained by differing definitions or measurements, they are confusing to report readers. For example:

- The fund balances presented in the financial statements prepared for the Board of Trustees as of June 30, 1998 sometimes differed from the fund balances presented in the Integrated Post Secondary Education Data System Finance Survey (IPEDS) reports prepared for the U.S. Department of Education. One institution had a difference of more than $6 million in these reported fund balances. We were told the difference was caused because the MnSCU financial statements showed all funds and the IPEDS only reported current funds.

- Retroactive IFO and Excluded Administrator salary adjustments were not accrued in the fiscal year 1998 financial statements. Those expenditures were, however, reported in the fiscal year 1998 IPEDS reports.

- The IPEDS reports include line items for reporting private gifts, grants & contracts and endowment income, but no amounts were reported. These items are being reported on the Annual Gifts and Grants Report to the Board of Trustees (There has been limited effort, however, verifying the accuracy of this report).

- The OLA reports usually contain a schedule of financial activity (often presented as Table 1-1 in those reports). The amounts presented in that schedule have differed from financial statements prepared for the Board of Trustees.

Recommendations

✓ *Eventually, colleges and universities should be responsible for producing comprehensive financial statements that show the financial condition and operating results of their institutions.*

✓ *MnSCU must consider the need to produce audited financial statements.*

✓ *Greater definitional consistency and disclosure should be sought for external financial reports.*

Table 6-1
Sample Reports Produced for Internal and External Users

Name of Report	Purpose	Comments
FY98 Institutional Financial Statements	Provide Fiscal Year Financial Activity to Board of Trustees	• The report is generated covering all funds. At this time, there isn't a 'plant fund' separately shown. This activity is in the Auxiliary Fund. • Liabilities for compensated absences and workers compensation are not included. • A significant amount of expenditures budgeted for FY98 was carried forward to FY99. Amounts are expected to be fully spent in FY99. • MnSCU expenditure data is extracted by occurrence date to calculate accounts payable. • MnSCU Transfers In and Out do not balance. These transfers are not being consistently recorded between the institutions.
Annual Gifts and Grant Report	Report on the nature and amount of all gifts and grants in excess of $5,000 to the Board of Trustees	• Development Officers and Foundation Officers at each institution report individual gifts and grants of $5,000 or more to the system office. • Smaller gifts are reported in summary. • Federal and State competitive grants are separately reported. • This informational report shows the institutions ability to raise funds. • The Foundation Endowment Balance on this report is not included in the financial statement fund balance nor in the IPEDS report fund balance. • Information from this report includes gifts received by foundations and is, thus, not included in the section or lines for endowments on the IPEDS report.
Instructional Cost Study Report	Will be used in the new cost allocation model; shows direct instructional costs by program based on FYE.	• The State Universities extract student data and credits from their registration systems and forward to the system office. • For the remaining institutions, instructional expenditures are pulled from the MnSCU System Data Warehouse based on CIP (sub-program) codes.
Integrated Post Secondary Education Data System Finance Survey (IPEDS)	Any institution that awards financial aid is required to prepare this comprehensive annual financial report for the U.S. Department of Education	• Fund Balance, Revenue and Expenditure amounts from only the current funds are extracted from the MnSCU System Data Warehouse. • Revenue is pulled by object code. Expenditures are pulled by program code and object code. • Transfers in/our are not reported.
Fiscal Operations Report and Application to Participate (FISAP)	Reports financial activity for federal financial aid to the U.S. Department of Education	• Prepared by individual institutions from enrollment and financial aid data.
Institutional Reserve Balances Report	Shows extent of compliance with board policy on reserves	• Reserve amounts are not budgeted or reported separately on financial statements. • Reserve balances are calculated by each institution and allow discretion for setting aside funds for commitments. • Board policy mandates 5-7% of the prior years revenue be held in reserve. • The Legislature has recently questioned why the reserves are not being spent.
Annual Fee Report	Compares fee revenues collected by institutions for the Board of Trustees and student associations	• The first annual report was recently presented to the Board. • The MnSCU Data Warehouse is used to extract information related to student fee revenue.
Capital Improvements Projects Status Report	Quarterly report to the Board of Trustees on the status of HEAPR and Capital projects in progress	• The two elements to this report include financial information and progress. Financial information is extracted from the MnSCU Data Warehouse. Progress is obtained from project managers.

Appendix A

MnSCU
Office of Internal Auditing
Audit Project Proposal

Reliability of MnSCU Financial Accounting Data

Background

MnSCU has a common information system for recording financial accounting data. Although the system has existed for nearly three years, questions continue about the reliability and completeness of its data. The Board of Trustees has been craving reliable financial information on the organization, particularly on individual colleges and universities, but to date its needs have remained unfulfilled. Some trustees have expressed a strong interest in having the system office monitor the financial results of individual colleges and universities. Trustees also have asked whether the organization should produce annual audited financial statements.

Two distinct issues are associated with meeting the board's financial information needs:

- Establishing that the underlying financial accounting data is reliable. Several characteristics contribute to the reliability of data: completeness, accuracy, consistency, and timeliness. Also, for the data to be useful to trustees, it must be classified and recorded in a uniform manner.

- Identifying the specific information that will be meaningful for the trustees. Too much information will be overwhelming and cause confusion. Too little information may be misleading. Trustees should have summarized, exception-based reports presented in a context that readily facilitate decision-making.

The system office has provided the board with some financial information on MnSCU colleges and universities (For example, see December 1997 board packet, pages 41-44). In addition, the Vice Chancellor – CFO has been working with the board's Fiscal Policy Committee to identify potential financial information for the board. However, concerns about the reliability of the financial accounting data have precluded the system office from delivering extensive, routine information to the board.

The Office of the Legislative Audit (OLA) audit reports on MnSCU colleges and universities have revealed numerous concerns about the reliability of MnSCU financial accounting data. In particular the audits have shown instances where colleges and universities have been unable to reconcile their accounting records. These reconciliations are a critical step to assure that the financial accounting data is accurately recorded. The audits have also shown examples of

MnSCU colleges that have not recorded all financial activity on the MnSCU accounting system. Audits have also cited colleges and universities for not recording data on a timely basis.

The system office has monitored various indicators of the quality of the recorded college and university financial data. These indicators include timeliness and completeness of reconciliations, unresolved balances in clearing accounts, obligations exceeding appropriation balances, and the extent that budget to actual comparisons are used. On occasion, the system office has prepared accounting status reports that it has communicated to college and university presidents. These efforts have improved the reliability of the MnSCU financial data, but not dissolved all concerns.

Proposed Project Scope

This proposed project would focus on the reliability of financial accounting data. It also would examine the use of existing financial reports generated by the accounting system. The project would review how the accounting system is used to prepare certain system-wide information, such as the annual Integrated Post-secondary Education Data (IPEDS) survey required by the U.S. Department of Education. It also would identify ad-hoc reports that are being used to support decision-making.

Although this project will not focus directly on identifying what financial information would be most useful to the Board of Trustees, it will help provide the foundation for meeting the board's information needs. MnSCU Finance has begun a dialogue with the board's Fiscal Policy Committee to identify the financial information that interests trustees. MnSCU Internal Auditing is available to assist with those efforts. Alternatively, Internal Auditing could initiate a future project that studies financial information needs more directly.

Objectives

- ✓ Does the MnSCU accounting system have effective input and processing controls?
- ✓ Are MnSCU colleges and universities using the accounting system to record financial accounting data that is reliable (complete, accurate, timely, and consistent)?
- ✓ Are colleges and universities experiencing any common problems or challenges in recording accounting financial data, e.g., reconciliations? If so, explore the root causes and alternative solutions to these issues.
- ✓ Is the financial accounting data classified and organized in a manner that will allow for meaningful summaries and comparisons?
- ✓ To what extent are existing standard accounting reports being used?
- ✓ What tools and techniques are used to support ad-hoc reporting needs?