

Bemidji State University & Northwest Technical College

Internal Control and Compliance Audit

Office of Internal Auditing
June 12, 2013



Minnesota
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Bemidji State University & Northwest Technical College Internal Control and Compliance Audit

Office of Internal Auditing
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Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Richard Hanson

This report presents the results of our selected scope internal control and compliance audit of Bemidji State University & Northwest Technical College for fiscal years 2011, 2012, and 2013 through December 31, 2012. It contains six findings and recommendations to assist university management in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The results of the audit were discussed with university leadership and staff on May 31, 2013.

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

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2011, 2012, and 2013 through December 31 2012:

- receipt collections (included tuition and supplemental receipts)
- employee business expense reimbursements
- procurement (included purchasing card activity), disbursement, and equipment inventory
- Northwest Technical College bookstore

Conclusion

The university and college generally had adequate internal controls. For items tested, the university and college generally complied with MnSCU policies and finance-related legal provisions. We identified six audit findings.

Findings

1. The university did not have adequate controls to ensure receipts from several supplemental revenue sources were safeguarded and properly deposited.
2. The university provided student check cashing services, resulting in unnecessary risks.
3. The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.
4. The university did not have written guidance to help employees determine the reasonableness of clothing purchases for admissions office recruiters.
5. The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.
6. A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

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

Section I: Background

Bemidji State University (BSU) and Northwest Technical College (NTC) are located in Bemidji, Minnesota. They are aligned under the leadership of one president, Dr. Richard Hanson. BSU was founded in 1963 while NTC was established in 1965. Current enrollment for both institutions is approximately 6,275 students, employing about 700 faculty and staff. BSU offers nearly 65 baccalaureate majors and 14 graduate degrees, while NTC offers 23 areas of study.

BSU and NTC maintain separate institutional accreditation from the Higher Learning Commission, and are recognized separately by the Minnesota Office of Higher Education and the Federal Department of Education for financial aid funds.

Since fiscal year 2006, the institution prepares combined financial statements that are audited by an external auditing firm. The institution received its seventh consecutive unqualified or “clean” financial statement opinion in 2012. This opinion is issued when the financial statements are free of material misstatements and are represented fairly in accordance with Generally Accepted Accounting Principles.

BSU and NTC’s fiscal year 2012 operating revenues were approximately \$39 million, of which \$23 million was tuition. Its fiscal year 2012 operating expenses were approximately \$74 million, of which \$47 million were salaries and benefits.¹

¹ Bemidji State University and Northwest Technical College *Annual Financial Report For the Years Ended June 30, 2012 and 2011*

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

Audit Objectives

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

- Were internal controls adequate to ensure the university and college safeguarded receipts and other assets, properly paid vendors and employees in accordance with management’s authorization, produced reliable financial accounting information, and complied with finance-related legal requirements?
- For the items tested, did the university and college comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

Audit Scope

Our audit reviewed the following activities for fiscal years 2011, 2012, and 2013 through December 31, 2012.

- Receipt collections
 - tuition, fees, room and board
 - other supplemental receipts – sales and services
- Employee business expense reimbursements
- Procurement (included purchasing card activity), disbursement, and equipment inventory
 - operating and administrative expenses
 - equipment expenses
- Northwest Technical College bookstore
 - receipt controls
 - inventory controls

Audit Methodology

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

Audit Conclusion

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

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

Section III – Audit Findings and Recommendations

Receipt Collections

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

The university did not have adequate controls to ensure receipts from supplemental revenue sources were safeguarded and properly deposited. The university business office collects many receipts, such as tuition and fees, directly from students. Other supplemental receipts including athletic events and concessions, student union sales, parking fines, recreation center facilities and equipment rental fees are collected elsewhere at the university and delivered to the business office to be deposited. We found the following weaknesses when reviewing these supplemental revenue processes.

- The university's student union reconciliation process did not accurately reconcile actual receipts to what should have been collected for some supplemental revenue sources. For example, pre-numbered receipts or other tools were not used to determine how many tickets or other items of value, such as stamps, were sold compared to actual receipts. Further, reconciliations were not always performed timely.
- The university defined and implemented procedures at its student union such as daily deposit reconciliation, entry of transactions into the accounting system, and identifying a back-up employee to perform these tasks when key personnel are absent. However, when key personnel were absent, we noted the backup employee did not prepare a complete, accurate reconciliation, or enter the deposit transactions into the accounting system, instead, shifting responsibility to the business office.
- The university did not deposit receipts in a timely manner. For example, receipts from 2 of 10 athletic events tested were deposited 1 day after the event, ranging from approximately \$6,000 to \$7,500. In addition, 1 of 8 Hobson Memorial Union deposits tested, approximately \$7,500, was deposited 7 days late. MnSCU Policy 7.5 Financial Institutions and Investments, and university procedure require daily deposits of receipts totaling \$250 or more. Receipts collected on the weekend should be delivered to the business office and deposited the next business day.
- Bags containing starting cash, tickets, and receipts from over the counter ticket sales for athletic events were not adequately safeguarded. Multiple bags used for various events were retained in a single cabinet accessible by several people including student or employee ticket sellers. Receipts should be delivered to the business office and placed in the drop box for deposit.

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

Recommendation

- *The university should identify all supplemental revenue sources, assess the adequacy of controls, and implement controls to ensure receipts are properly*

safeguarded and deposited. Also, receipt processes and controls should be documented. Controls should ensure:

- deposits are complete and reconcile to supporting documentation*
- receipts are deposited timely*
- receipts are physically secured*
- backup personnel are trained to perform defined procedures, including daily deposit reconciliations and entry of transactions into the accounting system.*

2. The university provided student check cashing services resulting in unnecessary risks.

Several years ago, the university began providing a free check cashing service in its student union to allow students to cash student payroll and other checks. Since that time, the number of university issued checks to students has decreased as electronic direct deposits have been used. Also, ATM machines are located throughout campus, and a credit union leases space in the student union to provide banking services to students and staff. However, the university continued to provide the check cashing service to students. Along with staff time to provide the service, the university may incur losses when checks are returned as non-sufficient funds.

Recommendation

- *The university should evaluate whether there is an ongoing need to provide students with check cashing services.*

3. The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.

The university performed a reconciliation of employee tuition waivers; however, the reconciliation is not performed by a person independent of the process. In addition, the reconciliation did not include employee tuition waivers paid to other institutions or student tuition waivers, such as student tuition waived for significant personal circumstances or college error. Tuition waivers are highly sensitive transactions because they reduce or eliminate the amount owed to the institution and must be manually calculated and entered to a student's account. An independent reconciliation can help to identify errors or irregularities and ensure waivers have been properly authorized.

During our review of employee tuition waivers, we noted two payments made by the university to another institution that should have been paid by Northwest Technical College. In addition, we noted four student tuition waivers were entered to students' accounts using an incorrect waiver reason code. Data input errors could affect management and financial reports.

Recommendations

- *The institutions should develop and implement a more robust, independent reconciliation process to verify the accuracy of employee tuition waivers entered at the university and college, including those paid to other institutions. In addition, they should perform a reconciliation of student tuition waivers to ensure there is documentation to support approval and dollar amounts.*
- *The university should determine the total amount of employee waivers it paid other institutions in error and obtain reimbursement from Northwest Technical College.*

Purchasing Cards

4. The university did not have written guidance to help employees determine the reasonableness of clothing purchases for admissions office recruiters.

The university does not have written guidance to help determine the reasonableness of clothing purchased for admissions office recruiting staff. Our audit identified several items of clothing purchased for admissions office recruitment staff such as men's sweaters and dress shirts, women's blouses and sweaters, scarves, fleece jackets, and a coat. Without written guidance, it is difficult for those involved in the purchasing process to determine if items are reasonable or allowable. In addition, it is not clear for whom clothing may be purchased, how many items or how much can be spent on each employee, or procedures for ensuring clothing purchases are included as employee compensation. As a result, the university and its employees may be at risk of violating Minnesota statutes or MnSCU policies and procedures related to employee code of conduct and ethics.

Recommendation

- *The university should consider developing written guidance related to clothing purchased for staff. The guidance should include and address:*
 - *employees or positions that receive clothing,*
 - *quantity of clothing items allowed per employee per year,*
 - *clothing parameters, such as allowable items and color restrictions,*
and
 - *process for reporting clothing purchases as compensation for employees to the payroll office.*

Employee Business Expense Reimbursements

5. The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.

The university athletics department did not have written guidance to define dollar limits and allowable expenses for athletic recruitment expenses (i.e. student visits). During our audit, we noted the university reimbursed employees for meal and hotel expenses related to recruitment of student athletes. The university should have formal guidance to ensure expenses are reasonable and allowable, and determine whether they want employee's using their personal credit cards to pay for recruitment-related expenses.

In addition, the university athletics department did not follow guidance related to personal use of university vehicles. The university athletics department was provided two vehicles by local automobile dealerships to be used by head coaches for the athletic programs in exchange for athletic tickets or advertising. When vehicles are used for personal use, such as commuting to and from home and work, the personal use must be reported to the payroll office as compensation. Personal use of the dealership vehicles was not tracked or reported to the university payroll office as compensation. In addition, when other employees used the vehicles for business trips, they received reimbursement for gasoline purchased during the trips. Reimbursement for gasoline purchases is typically a risky transaction because reimbursement generally lacks controls that vehicle fleet cards have in place. Vehicle fleet cards are assigned to a specific vehicle; therefore, gasoline purchases can be compared to vehicle usage to ensure reasonableness.

Finally, the athletics department did not comply with special expense and travel procedures related to international travel. MnSCU Procedure 5.19.3 Travel Management requires pre-approval of international travel and MnSCU Procedure 5.20.1 Special Expenses requires pre-approval for expenses such as employee meal or hotel expenses when an employee is not in travel status. Our audit found that pre-approval was not obtained for meal and hotel reimbursements when an employee was not in travel status; these expenses were related to recruitment of student athletes. In addition, we noted that pre-approval by the President was not obtained for international travel expenses for recruitment of student athletes.

Recommendations

- *The university should develop written guidance to clarify allowable athlete recruiting expenses and dollar limitations. When developing guidance, the university should consider NCAA requirements.*
- *The university should consider utilizing purchasing cards to pay for meal and hotel expenses for recruitment of student athletes rather than employee expense reimbursement.*
- *The university should develop procedures to ensure personal use of university vehicles is reported as employee compensation to the payroll office.*

- *The university should obtain and utilize a vehicle fleet card for gasoline for all university vehicles.*
- *The university should ensure it obtains pre-approval for special expenses and international travel as required by MnSCU Procedure.*

System Security Access

6. A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

A complete review of employee's access to the state's accounting system was not performed as part of the January 2013 required recertification process. The MnSCU system office worked closely with individual institutions to review and remove, when possible, employee's incompatible access. However, each college and university did not review other employee's access when an incompatibility did not exist. During our review of BSU and NTC employee access, we identified two individuals with access that did not work for the university or college and did not need access.

The State of Minnesota requires state agencies and MnSCU to annually review and recertify employee's access to the state's accounting system. The purpose of this recertification is to ensure employees' access is limited to what is needed to complete their job responsibilities, and access is removed when someone leaves the organization.

The state of Minnesota implemented a new accounting system in 2011. Similar to the old system, the new accounting system has the ability to generate reports showing the security roles assigned to each employee. However, the report cannot be filtered on individual colleges and universities as could be done with the prior accounting system. As a result, the security report for MnSCU combines all 31 colleges and universities into the same report making it difficult to work with.

Recommendations

- *The system office should work with Minnesota Management & Budget to get the security report modified so it can be generated separately for each college and university.*
- *Until security reports can be generated for individual colleges and universities, the system office should develop an alternative way to provide the information needed for each college and university to perform a complete review and recertify their employee's access.*



OFFICE OF THE PRESIDENT

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June 5, 2013

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

Dear Chancellor Rosenstone, Trustees and Ms. Buse:

Thank you for the opportunity to review and provide responses to the results of the Bemidji State University (BSU) & Northwest Technical College (NTC) Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2011, 2012, and 2013 through December 31, 2012.

We are pleased that the overall conclusion of the audit was that the university and college had adequate internal controls. Since we had not had an audit of this type since 1999, it was positive to see that the overall conclusion had not changed after the many internal and external changes that occurred over the past decade or so. We welcome the opportunity to improve operations based on the findings noted in the audit. A process like this one gives us an opportunity to assess areas where compliance can be improved and a clear benchmark to strengthen accountability at BSU and NTC in financial operations.

BSU and NTC are appreciative of the professionalism shown by the Office of Internal Auditing in working with us to review our financial operations.

Listed below are our responses with our plan to resolve the findings:

Finding 1:

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

Bemidji State University agrees with this finding. Management will continue to work with all areas that have supplemental revenue. In the fourth quarter of 2012, clearer procedures on cash handling were communicated to the campus. We will build upon this work to reinforce the



importance of having consistent business practices that provide adequate controls and comply with state and MnSCU policies. This is a challenging area in a decentralized environment so it will be important to hold areas that have supplemental revenue accountable to following correct procedures.

The business office will work closely with the Director of the Hobson Memorial Student Union to ensure that clear and consistent procedures are implemented for their daily deposits and reconciliations. Training backup personnel to perform these duties will also occur as part of this process. A standard reconciliation form will also be implemented so we can ensure there is sufficient supporting documentation with all deposits.

At BSU, we will also install additional locked cabinets so that can improve the safeguarding and segregate bags with starting cash and the resulting receipts. Each individual activity would then only have access to their cash bags for an event, which will clearly identify the responsible party.

Finding 2:

The university provides its students with check cashing services, resulting in unnecessary risks.

Bemidji State University agrees with this finding. As of July 1, 2013; the university will eliminate this service. With the addition of a credit union in the student union, it is likely it is no longer necessary to provide this service. Eliminating the service will also assist with improving the daily deposit reconciliation in the student union.

Finding 3:

The reconciliation process for tuition waivers did not include all types of tuition waivers and was not performed by an independent person.

Bemidji State University and Northwest Technical College agrees with this finding. We have started to implement a more systematic procedure in processing tuition waivers. As a first step, a formal document has been created that clearly identifies the ISRS waiver codes to be used for BSU and NTC as well as which position in business services is allowed to use a particular waiver code.

Effective summer session 2013, BSU and NTC will also implement a new reconciliation process for all tuition waivers. The process will be conducted through the office of the accounting services supervisor senior in business services and her staff. This office is independent of the accounts receivable office so it has no role in processing tuition waivers. Part of the reconciliation process will also include ensuring there is sufficient rationale and documentation to support the tuition waiver.

BSU also received reimbursement from NTC on May 20, 2013 for \$3,408.50 to correct the error made of making two payments to other MnSCU two year institutions from BSU, instead of NTC.

Finding 4:

The university did not have guidance to help employees determine the reasonableness of clothing purchases for admission office recruiters.

Bemidji State University agrees with this finding. The vice president for finance and administration will work with the associate vice president for admissions and enrollment along with other administrators to develop written guidance related to clothing purchased for university and college employees. The guidelines will include the positions that receive clothing, quantity of clothing items allowed per employee per year, clothing parameters (allowable items and colors), and delineating a process for reporting clothing purchases as compensation to the payroll office.

BSU does not believe that our employees have been unreasonable in the quantity or selection of clothing that is needed as part of their position in the past, but believes written guidelines will be helpful in ensuring consistency and compliance with MnSCU policies and procedures.

Finding 5:

The university athletics department did not have written guidance for student athlete recruitment expenses and it did not comply with some travel and special expense procedures.

Bemidji State University agrees with this finding. The director of athletics and the vice president for finance and administration will work together to put new procedures and guidelines in place for fall semester 2013 to address the issues identified.

Written guidelines will be developed to clarify the university policy on recruiting expenses and the process that is required for coaches to pay for those expenses. The university is in compliance with the NCAA regulations with recruiting expenses, but it will reduce risk if we are more transparent and specific in defining what is allowable and reasonable.

The practice of using vehicles provided by local automobile dealerships will be evaluated. If this practice continues, the university will develop procedures to ensure that personal usage of these vehicles will be reported to the payroll office as compensation. Travel logs and vehicle fleet cards for gasoline will also be assigned to these vehicles.

Additional training will be done with the athletic staff to ensure that pre-approval for special expenses and international travel is done before the travel or activity occurs. Since BSU does a fair amount of recruiting in Ontario and Manitoba, international travel happens on a regular basis with some of our programs so we will look at blanket approvals for some of the shorter and common destinations in those provinces.

Finding 6:

A complete review and certification of employee's access to the State of Minnesota's accounting system was not performed.

Bemidji State University and Northwest Technical College's business manager will work with the system office to help identify an alternate way to provide the information needed to conduct a complete review and recertification of BSU and NTC's employee's access to the state accounting system. It is our understanding that the system office will be working with the Minnesota Management & Budget to modify the security reports so that individual college and university reports can be separately generated.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Hanson", with a long horizontal flourish extending to the right.

Richard A. Hanson, Ph.D.
President

cc: Mr. William Maki, Vice President for Finance and Administration
Ms. Laura King, Vice Chancellor for Finance and Administration
Ms. Diane Illies, Business Manager