Minnesota State University, Mankato

Internal Control and Compliance Audit

Office of Internal Auditing

January 7, 2016

Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2015-13

Report Classification: Public

Minnesota State University, Mankato
Internal Control and Compliance Audit

Minnesota
STATE COLLEGES
& UNIVERSITIES

Office of Internal Auditing
Reference Number 2015-13

Public Release Date – January 7, 2016

Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
President Richard Davenport

This report presents the results of our selected scope financial internal control and compliance audit of Minnesota State University, Mankato for fiscal years 2013, 2014, and 2015. It contains six findings and related 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 and system office leadership on November 19, 2015.

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

Eric Wion

Eric Wion, CPA, CISA, CISSP
Deputy Director

CONTENTS PAGE

The audit was performed by Craig Fautsch, Marita Hickman, Carolyn Gabel, and Indra Mohabir

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2013, 2014, and 2015.

- Tuition and fee receipts
- Employee business expense reimbursements
- Purchases, disbursements, and equipment inventory
- Personnel and payroll expenses
- Computer store receipts
- Parking receipts
- Key financial reconciliations

Conclusion

The university generally had adequate internal controls and complied with policies, procedures, and finance-related legal requirements. The audit report contains six findings and recommendations to improve controls.

Findings

1. The university did not implement effective mitigating or detective controls to address risks associated with some employees having incompatible access in ISRS.
2. Some receipts were not deposited timely.
3. The university did not comply with board policy because its practice is to waive the Minnesota State University Student Association Fee (MSUSA) when waiving other student charges.
4. The university did not adequately manage its ISRS equipment inventory records.
5. The university did not have delegation of authority letters for all the employees that approve purchases and payments.
6. The university encountered problems that resulted in some faculty being paid late.

Section I: Background

Minnesota State University Mankato (MSU, Mankato) offers more than 130 undergraduate programs of study, including 13 pre-professional programs and more than 75 graduate programs, including masters, specialist, and doctoral programs. The university has over 15,000 students, including more than 1100 international students from more than 90 countries. The university employs more than 2000 faculty and staff, including almost 750 teaching faculty. In addition to courses offered in Mankato, the university also offers more than 30 programs in the Twin Cities, including graduate education in business, educational leadership, and nursing. Dr. Richard Davenport has been its president since 2002.

Tuition, fees, and state appropriations are the primary sources of funding university operations. The university's allocation of state appropriations was $51.4 million, and tuition and fees were $111.4 million, fiscal year 2014. The largest expenses in fiscal year 2014were salaries and benefits totaling $135.9 million followed by purchased services and supplies totaling $27 million and $2.4 million. In fiscal year 2014, the university disbursed $17.2 million in federal student financial aid.

The university uses the MnSCU accounting system, one of many modules of the Integrated Student Record System (ISRS), to generate payments from the state treasury and account for money maintained outside of the state treasury in local bank accounts. Local bank accounts are used for student financial aid, student activities, and auxiliary operations.

The university's last internal control and compliance audit was conducted by the Minnesota Office of the Legislative Auditor in 1999. The university had individual audited financial statement audits in fiscal years 2002 through 2013. Starting in fiscal year 2014 the university was audited as part of the MnSCU system-wide financial statement audit.

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

Audit Objectives

The objectives for this audit were to answer the following questions:

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

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

Audit Scope

Our audit reviewed the following activities for fiscal years 2013, 2014, and 2015.

- Tuition and fee receipts
- Employee business expense reimbursements
- Purchases, disbursements, and equipment inventory
- Personnel and payroll expenses
- Computer store receipts
- Parking receipts
- Key financial reconciliations

Audit Methodology

We interviewed university staff and reviewed relevant documentation, including policies, procedures, or guidelines, and internal control documentation prepared for financial statement purposes to gain an understanding of the university's internal controls. We considered risks of fraud and errors, and potential noncompliance with finance-related legal requirements. We analyzed accounting and human resources data. We reviewed employee computer system access to identify the transactions staff can initiate, approve, or process to determine whether access was based on need, and duties were adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether controls were effective and transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion

The university generally had adequate internal controls to ensure it safeguarded receipts and other assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. For items tested, the university generally complied with MnSCU policies and finance-related legal provisions. We identified some control weaknesses and noncompliance as discussed in the following findings and recommendations.

Section III – Audit Findings and Recommendations

1. The university did not implement effective mitigating or detective controls to address risks associated with some employees having incompatible access in ISRS.

Some mitigating controls were implemented in the student financial services area but it was not complete and did not cover all the employees that had incompatible access in ISRS. In addition, the employee performing some of the mitigating controls also had higher risk incompatibilities. Three cashiers, who have the most access to receipts, had a low risk incompatibility with the collections duties, six other staff in the student financial services area had 13 different high-risk incompatibilities and 2 lower risk incompatibilities. High-risk incompatibilities included the ability to record receipt transactions and also enter transactions that reduce receipts including corrections, receivable corrections, waivers, and refunds. The business office also had some employees with incompatible access without formal documented mitigating controls.

Separating incompatible duties is preferred because it prevents errors, unauthorized transactions, and fraud from occurring and going undetected. The university should review the incompatible access and eliminate it as much as possible. For the remaining incompatible duties, the university needs strong after-the-fact monitoring or detective controls. In addition to documenting these control procedures, including who does what and when, the university should monitor them to ensure they are being completed properly.

Recommendations

- *The university should review incompatible access and eliminate as much as possible.*
- *The university should implement effective mitigating controls when it is unable to adequately separate incompatible duties. The university should document controls including the transactions reviewed, by whom, and when and periodically verify the controls are working as expected.*
- *Employees who perform mitigating controls should not have the same incompatibilities unless another employee reviews that person's transactions.*

2. Some receipts were not deposited timely.

Some checks were collected in different areas of the university and were not always sent to the cashier's area to be deposited timely. Examples included a rebate check sent to the facilities department and a large hockey tournament check sent to the athletics area.

Coins from the university's 55 parking meters are collected on a weekly basis and brought to the security office for counting before being delivered to the cashier's area for depositing. At times, the coins were held in the security office for over a week. University staff indicated the average amount of coins removed from meters each time is between $250 and $300.

Receipts should be deposited timely to reduce the risk of theft. Per MnSCU policy 7.5 and Minnesota Statute 16A.275, receipts totaling $1,000 or more should be deposited daily. Although not required, it is a good practice to deposit receipts of less than $1,000 more timely.

Recommendations

- *The university should implement procedures to ensure funds are deposited timely.*
- *The university should review areas that collect receipts, and consider whether they can be directly sent to the cashier or business office area.*
- *The university should consider having security staff deliver parking meters coins directly to the cashier or business office area.*

3. The university did not comply with board policy because its practice is to waive the Minnesota State University Student Association Fee (MSUSA) when waiving other student charges.

The university's practice is to waive the MSUSA fee when waiving other tuition and fee charges for eligible students. Board Policy 5.12 allows tuition and fee waivers for reasons such as a student's death, medical reasons, or significant personal situations. The policy, however, states, "The college or university cannot waive the MSUSA or MSCSA student association fee."

Although eligible students have the student association fee waived, the university uses its own funds to pay the waived fee to the student association. Staff indicated the practice was adopted because the fee per student is very small and it is simpler for both the student and the university. The MSUSA fee for the 2015/16 school year is $.43 per credit hour when tuition charges are calculated based on credits. When tuition is based on banded tuition of 12 through 18 credits, the MSUSA fee is calculated using 15 credit hours. The university waived a little more than $2,000 in MSUSA fees each year in fiscal years 2014 and 2015.

Finally, we were told there are other MnSCU institutions that have adopted the same practice as MSU Mankato.

Recommendations

- *The system office and board of trustees should consider revising board policy 5.12 if it is an acceptable practice for colleges and universities to pay the student association fees themselves rather than students when a student qualifies for a tuition and fee waiver.*
- *The university should change its practice of waiving student association fees if the board of trustees are not agreeable to the practice.*

4. The university did not adequately manage its ISRS equipment inventory records.

The university did not adequately manage its equipment inventory records. Although the university performed physical inventories on a timely basis, some items noted as inventoried were found to have been disposed before the inventory. For example, some computers and an $117,000 piece of equipment had been disposed of but remained as a current asset in the university's records.

The university's information technology department maintained list of computer-related equipment, however, it did not complete periodic physical inventories. The university used a third party vendor to dispose of computers but when contacted to determine when the computers had been disposed it was determined that the vendor was not recording serial numbers or asset numbers of the computers they had picked up.

The purpose of physical inventories is to ensure equipment is accounted for and not lost or stolen. Once completed, ISRS is updated to reflect any changes in the location, the date each piece of equipment was located, and if appropriate to remove any equipment that was disposed of or lost and stolen.

Recommendations

- *The university should ensure physical inventories of equipment, including computer-related equipment, are completed timely and ISRS is properly updated.*

- *The university should ensure equipment disposal procedures are followed and ISRS is properly updated to record disposals.*

5. The university did not have delegation of authority letters for all the employees that approve purchases and payments.

The university had not prepared delegation of authority letters for all employees who approve purchases and corresponding vendor payments. For example, department chairs may approve purchases and payments but they did not always have delegation of authority letters on file. According to the university, this has been their procedure for many years. Properly approved delegation of authority letters are required to clearly communicate what duties and actions an employee is authorized to perform on behalf of the university.

Recommendations

- *Employees must be delegated authority to approve purchases and vendor payments on behalf of the university. Delegation of authority letters should be completed, approved, and retained.*

- *The university should not process purchases and payments approved by employees without delegated authority.*

6. The university encountered problems that resulted in some faculty being paid late.

Some faculty were paid late at the beginning of the fall 2015 academic term. University staff said 170 faculty did not get their first paycheck on time or the full amount of their first paycheck for the fall term. By the end of October, the volume of assignments had decreased and most pay errors were corrected; there were approximately 20 employees that still had assignments that had not been paid. A combination of factors, including complexity and staff turnover, may have contributed to late processing of payments.

The university must complete a large volume of faculty assignments in a short period of time at the beginning of each academic term and the process is largely paper-based. Academic areas complete and approve paper assignment forms for each faculty member. The completed forms are sent to the human resources office where staff enter the information into SCUPPS so faculty can be paid. In addition, courses are commonly added or cancelled at the start of the term and require additional changes to some faculty's assignments. At the beginning of the fall term, some of the paperwork did not arrive in the human resources office for timely entry into SCUPPS.[1]

University staff expressed concerns about an increasing number of reconciling payroll issues that had gone uncorrected from one pay period to another. In some cases, errors resulted because assignments were entered but payment information was not entered before the end of the pay period.

Staff turnover in human resources and some academic areas likely contributed to the problem. A long-term employee responsible for processing bi-weekly payroll retired in December 2014. The employee assuming those responsibilities may not have the depth of experience and training to handle the volume of complex transactions at the busiest times. [2]

The system office provides a variety of tools and training to help college and university staff better understand SCUPPS and its transactions. University staff felt the SCUPPS transactional training and web-based training was not sufficient for new human resource staff given the complexity of faculty work assignments transactions. The system office provides additional resources including a SCUPPS help desk, a SCUPPS training manual, and other documentation. Finally, system office staff are a resource to answer questions or provide additional training when requested.

[1] The system office has been leading a project called the Faculty Assignment Management Automation (FAMA) project. Effective January 2016, all colleges and universities are expected to begin utilizing the Faculty Workload Management (FWM) application, which is part of a fully-integrated, automated process that leverages ISRS course schedule information to build faculty assignments in SCUPPS, allowing for additional input of non-instructional work, bargaining agreement compliance and budget approvals along the way.

[2] The MnSCU human resources (HR) community is currently developing a new common business practice model for systemwide HR transactional delivery in a shared services environment. Effective January 2017, many HR transactional services will be provided to colleges and universities via HR services centers that support multiple institutions, which will minimize the impact of HR turnover at all institutions.

Recommendations

- *The university should implement procedures to ensure employees are paid timely and accurately.*

- *The university should evaluate what oversight should occur when it sustains significant turnover in human resources and academic areas and consider implementing additional monitoring and escalation processes when alerts are raised, issues arise and work is not completed timely.*

- *The university should work with the system office or experienced staff from another state university to ensure employees entering assignments and processing payroll have sufficient training needed for processing complex faculty work assignments.*

- *The system office should evaluate whether the SCUPPS training for new employees should be expanded.*

Section V – Management's Response

This page intentionally left blank.

MINNESOTA STATE UNIVERSITY
MANKATO

December 22, 2015

Minnesota State Colleges and Universities
Members of the Board of Trustees
Chancellor Steven Rosenstone
Mr. Eric Wion, Interim Executive Director, Internal Auditing
30 7th St E, Suite 350
St. Paul, MN 55101-7804

Dear Chancellor Rosenstone, Trustees and Mr. Wion:

Thank you for the opportunity to review and provide responses to the results of the Minnesota State University, Mankato Internal Control and Compliance Audit that was conducted for the time period covering fiscal years, 2013, 2014 and 2015.

We look at this audit as a valuable tool to assess and review our internal control systems. We appreciate the opportunities for improvement in the areas where we have findings. The findings detailed in the audit report are restated below along with our response. We look forward to further strengthening our robust internal control systems.

We appreciate the professionalism shown by Mr. Wion and his staff of auditors while our financial operations were reviewed.

The following are the findings detailed in the audit report and our responses to resolve them:

Audit Finding # 1) – The university did not implement effective mitigating or detective controls to address risks associated with some employees having incompatible access in ISRS.

University Response to Audit Finding 1:

We concur with this finding and will review incompatible security rights to determine if security rights should be eliminated, if additional mitigating controls should be developed, or whether existing mitigating controls need to be formally documented.

Separating incompatible duties is preferred because it prevents errors, unauthorized transactions, and fraud from occurring and going undetected. The university will review the incompatible access and eliminate it as such as possible. For the remaining incompatible duties, the university will implement after-the-fact monitoring or detective controls. In addition to documenting these control procedures, including who does what and when, the university will monitor them to ensure they are being completed properly.

OFFICE OF THE PRESIDENT
309 WIGLEY ADMINISTRATION CENTER • MANKATO, MN 56001
PHONE 507-389-1111 (V) • 800-627-3529 OR 711 (MRS/TTY) • FAX 507-389-6200

Audit Finding # 2) – Some receipts were not deposited timely.

Some checks were collected in different areas of the university and were not always sent to the cashier's area to be deposited timely. Coins from the university's 55 parking meters are collected on a weekly basis and brought to the security office for counting before being delivered to the cashier's area for depositing. At times, the coins were held in the security office for over a week. University staff indicated the average amount of coins removed from meters each time is between $250 and $300.

University Response to Audit Finding 2:

We concur with this finding and plan to address it by changing certain procedures and improving communications. We plan to direct other entities to make payments directly to our cashiers' office when feasible. For those areas that may receive unanticipated checks on an infrequent basis, we plan to send out reminder communications that receipts of $1,000 or more must be deposited on a daily basis. We've already implemented a change in our process for handling parking meter collections. The Parking staff now bring coins from the parking meters directly to the Cashier's office to be promptly deposited.

We understand that receipts should be deposited timely to reduce the risk of theft. Per MnSCU policy 7.5 and Minnesota Statute 16A.275, receipts totaling $1,000 or more should be deposited daily. Although not required, it is a good practice to deposit receipts of less than $1,000 more timely.

Audit Finding # 3) – The university did not comply with board policy because its practice is to waive the Minnesota State University Student Association Fee (MSUSA) when waiving other student charges.

The university's practice is to waive the MSUSA fee when waiving other tuition and fee charges for eligible students. Board Policy 5.12 allows tuition and fee waivers for reasons such as a student's death, medical reasons, or significant personal situations. The policy, however, states, "The college or university cannot waive the MSUSA or MSCSA student association fee."

Although eligible students have the student association fee waived, the university uses its own funds to pay the waived fee to the student association. Staff indicated the practice was adopted because the fee per student is very small and it is simpler for both the student and the university. The MSUSA fee for the 2015/16 school year is $.43 per credit hour when tuition charges are calculated based on credits. When tuition is based on banded tuition of 12 through 18 credits, the MSUSA fee is calculated using 15 credit hours. The university waived a little more than $2,000 in MSUSA fees each year in fiscal years 2014 and 2015.

Finally, we were told there are other MnSCU institutions that have adopted the same practice as MSU Mankato.

University Response to Audit Finding 3:

We concur with this finding. However, we believe that our current practice is a reasonable business practice and is in line with the intent of MnSCU board policy. The university's practice is to waive the MSUSA fee when other charges are also being waived when special circumstances warrant it. Although the university has not been collecting the MSUSA fee from the students in these situations, we have been remitting the earned fees to the MSUSA student association because we believe that was the intent of the MnSCU board policy. To address this finding, we believe that MnSCU board policy 5.12 (Tuition and Fee Due Dates, Refunds, Withdrawals, and Waivers) should be amended to be in line with our current practice. Under the current policy, if we have the unfortunate circumstance of needing to address a special situation such as a student's death or a granted waiver due to other extraordinary circumstances allowed under waiver policy, we would be allowed to waive all the student's charges except the MSUSA fee. This would mean that we would be attempting to collect anywhere from $0.43 to $6.49 from a student where all other charges have been waived. We believe the Board policies should be consistent regarding waiver of all types of student charges.

Auditing Finding # 4) – The university did not adequately manage its ISRS equipment inventory records.

The university did not adequately manage its equipment inventory records. Although the university performed physical inventories on a timely basis, some items noted as inventoried were found to have been disposed before the inventory. For example, some computers and an obsolete wireless network server been disposed of but remained as a current asset in the university's records.

The university's information technology department maintained list of computer-related equipment, however, it did not complete periodic physical inventories. The university used a third party vendor to dispose of computers but when contacted to determine when the computers had been disposed it was determined that the vendor was not recording serial numbers or asset numbers of the computers they had picked up.

University Response to Audit Finding 4:

We concur with this finding. Although the university has made a considerable effort to revise its inventory management procedures to address prior audit findings, it is clear that additional work is needed as we fell short in the execution of those procedures. We will need to better communicate existing procedures to various personnel that are involved with inventory management especially those involved with tracking computer related equipment items. Additionally, we will strengthen our equipment disposal procedures. We have already changed our computer disposal vendor to a new vendor who will meet our documentation requirements for asset disposal.

Audit Finding # 5) – The university did not have delegation of authority letters for all the employees that approve purchases and payments.

The university had not prepared delegation of authority letters for all employees who approve purchases and corresponding vendor payments. For example, department chairs may approve purchases and payments but they did not always have delegation of authority letters on file. Properly approved delegation of authority letters are required to clearly communicate what duties and actions an employee is authorized to perform on behalf of the university.

University Response to Audit Finding 5:

We concur with this finding. University leadership will discuss what the appropriate level of delegated authority should be for initiating purchases and approving payments. Once this discussion has taken place and decisions are made regarding appropriate approval levels, we will work to update the employee delegation of authority letters and required signatory documentation accordingly.

Audit Finding # 6) – The university encountered problems that resulted in some faculty being paid late.

The university must complete a large volume of faculty assignments in a short period of time at the beginning of each academic term and the process is largely paper-based. Academic areas complete and approve paper assignment forms for each faculty member. The completed forms are sent to the human resources office where staff enter the information into SCUPPS so faculty can be paid. In addition, courses are commonly added or cancelled at the start of the term and require additional changes to some faculty's assignments. At the beginning of the fall term, some of the paperwork did not arrive in the human resources office for timely entry into SCUPPS.

University staff expressed concerns about an increasing number of reconciling payroll issues that had gone uncorrected from one pay period to another. In some cases, errors resulted because assignments were entered but payment information was not entered before the end of the pay period.

Staff turnover in human resources and some academic areas likely contributed to the problem. A long-term employee responsible for processing bi-weekly payroll retired in December 2014. The system office provides a variety of tools and training to help college and university staff better understand SCUPPS and its transactions. University staff felt the SCUPPS transactional training and web-based training was not sufficient for new human resource staff given the complexity of faculty work assignments transactions. The system office provides additional resources including a SCUPPS help desk, a SCUPPS training manual, and other documentation. Finally, system office staff are a resource to answer questions or provide additional training when requested.

University Response to Audit Finding # 6:

We concur with this finding. Our human resources office relies on academic departments to complete the necessary paperwork for new faculty hires and for faculty employee assignments. It should be noted that many of the faculty employees that did not get paid on time were adjunct or fixed term faculty employees. There are a number of situations that may cause paperwork to arrive late to human resources including new faculty employees not promptly signing certain payroll documents before their first scheduled duty day, course additions or deletions made near the start of the fall term, and the sheer volume of payroll documents that arrive in human resources at the same time.

To address this finding, we plan on more communications with academic departments about the need for faculty employee paperwork to be completed before certain deadlines so that faculty employees can be paid on time. Additionally, we are hopeful that the new Faculty Workload Management (FMW) application in ISRS will help streamline the process of faculty employee assignment data getting entered into our payroll systems and help reduce the number of faculty employees that do not get paid on time.

In regards to some growing challenges we are having with reconciling payroll data between SWIFT/SEMA4 and ISRS/SCUPPS we believe better training for new human resource payroll employees would be beneficial. After contacting payroll staff at Winona State University, we learned that the timing of when certain payroll data is entered is critical for reducing the number of discrepancies that show up on payroll reconciliation reports that need to be researched. We plan to utilize payroll experts at other MnSCU institutions, such as Winona State University, for advice when the training from the MnSCU system office human resources unit is insufficient. We also believe that the proposed regionalization of payroll processing will also help standardize processes and training.

Sincerely,

Dr. Richard Davenport
President, Minnesota State University, Mankato

Cc: Mr. Richard Straka, Vice President for Finance and Administration
Mr. Steve W. Smith, Assistant VP for Budget and Business Services
Ms. Laura King, Vice Chancellor for Finance and Operation