Banking Controls
Internal Control and Compliance Audit

Office of Internal Auditing
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Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
College and University Presidents

This report presents the results of our internal control and compliance audit of banking controls. It contains nine findings and recommendations to assist colleges, universities, and the system office in improving business processes, controls, and accountability.

We conducted this audit in compliance with the *Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing*.

The results of the audit were discussed with the system office and the finance advisory group on April 2, 2013.

We appreciate the excellent cooperation and assistance that we received from employees at the colleges, universities, and system office.

Beth Buse, CPA, CIA, CISA
Executive Director

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Executive Summary

Background

- Each college, university, and the system office is responsible for its internal controls related to their local banking and investment activity.
- MnSCU had over 130 local bank and investment accounts.
- Over $1 billion in receipts flow through local bank accounts annually.

Conclusion

- MnSCU generally had adequate internal controls over banking activities.
- For items tested, MnSCU generally complied with finance-related legal requirements and applicable policies, procedures and guidelines.

Findings and Recommendations

- Institutions lacked guidance to help them determine the banking controls needed to address evolving risks (Finding 1).
- Most institutions did not periodically review and recertify employee's access to bank and investment accounts (Finding 2).
- Several colleges and universities did not adequately separate some job duties and some employees had unnecessary access (Finding 3).
- Findings 4 – 8 address various compliance-related issues.

Considerations for System Leaders

- Evaluate the overall banking strategy for the system. Opportunities may exist to save money on banking services, improve controls, and maximize earnings on investments.
- Evaluate opportunities to develop more standardized practices for local bank reconciliations.

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

Section I: Background

MnSCU colleges, universities, and the system office ("institutions") had over 130 local bank and investment accounts of which 74 were checking and savings accounts. Institutions maintain local bank accounts to deposit receipts from a variety of sources. Some receipts remain in them until they are spent or invested while others are "swept" or moved by the State of Minnesota into the state's bank account (state treasury). Examples of receipts swept by the State include tuition, fees, and room and board. Examples of receipts that remain in local bank accounts include auxiliary services such as parking, food service, and bookstore receipts, as well as other receipts such as federal student financial aid and scholarship and endowment funds. As noted in Table 1, over $1 billion in receipts flow through local bank accounts each year. In addition, over $770 million in student loan activity flows through the local bank accounts.

Table 1: Tuition, Fees, and Sales, Net for Year Ended June 30
(In Thousands)

Carrying Amount	2012	2011	2010
Tuition	$853,040	$832,637	$784,601
Fees	89,724	95,052	92,521
Sales and room and board	133,301	135,871	137,771
Restricted student payments	109,698	106,308	100,226
Totals	**$1,185,763**	**1,169,868**	**$1,115,119**

Source: Minnesota State Colleges and Universities Annual Financial Report for the Years ended June 30, 2012 and June 30, 2011 (Note 12 – Gross).

As noted in Table 2, the system had approximately $114 million in cash and cash equivalents in local bank accounts and approximately $793 million in the state treasury at June 30, 2012.

Table 2: Cash and Cash Equivalents for Year Ended June 30
(In Thousands)

Carrying Amount	2012	2011	2010
Cash, in bank	$56,362	$60,809	$46,487
Money markets	8,832	5,573	4,508
Repurchase agreements	17,317	13,501	7,736
Restricted local cash	454	434	414
Cash, trustee account (US Bank)	31,242	86,255	47,705
Total local cash and cash equivalents	**$114,207**	**$166,572**	**$106,850**
Total treasury cash accounts	**793,130**	**754,154**	**658,524**
Grand Total	**$907,337**	**$920,726**	**$765,374**

Source: Minnesota State Colleges and Universities Annual Financial Report for the Years ended June 30, 2012 and June 30, 2011 (Note 2).

Institutions are allowed to invest local funds. Minnesota statutes allow institutions to invest funds in depository type accounts or in longer term investments, limited to government bonds, notes, bills, and mortgage backed securities, excluding high risk mortgage backed securities. The value of these investments at June 30, 2012, exceeded $26 million.

Online banking has grown over the past several years and is used by every MnSCU institution. Institutions use it for a variety of reasons including accessing critical information and initiating ACH payments and wire transfers. While online banking provides convenience, it also introduces risks that need to be addressed.

Each college, university, and the system office is responsible for managing its own controls related to their local banking and investment activity. Examples of key controls include:

- Reconciling bank accounts to MnSCU's accounting system.
- Reconciling MnSCU's accounting system to the State of Minnesota's accounting system.
- Collateralizing bank accounts.
- Positive Pay: Transmitting payment information to the bank so it can match the checks an institution issues with those presented to the bank for payment. Any check considered to be potentially fraudulent is flagged for the institution to examine.
- Limiting employee access to local bank accounts and banking transactions based on job responsibilities and business need.
- Separating duties so no one individual can control a process from start to finish.
- Dual controls such as requiring more than one individual to approve riskier transactions such as wire transfers.

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

Objectives

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

- Did colleges, universities, and the system office internal controls provide reasonable assurance that bank financial activities were adequately safeguarded, accurately recorded in the accounting records and complied with finance-related legal requirements?
- For the items tested, did colleges, universities, and the system office comply with significant finance-related legal requirements, including state laws, regulations, contracts, and applicable policies, procedures, and guidelines?
- Do opportunities exist for management to improve business processes over banking controls to make them more efficient and effective?

Scope and Methodology

Our audit scope included banking-related internal controls of the system office and MnSCU's 31 colleges and universities. The 31 colleges and universities are defined by the number of presidents. However, three presidents oversee nine institutions; five colleges comprise the Northeast Higher Education District, Anoka Ramsey Community College and Anoka Technical College is aligned as are Bemidji State University and Northwest Technical College. Banking is managed separately at each of these locations. As a result, we considered and separately surveyed 37 colleges and universities as well as the Northeast Service Unit and the system office. The areas of focus included:

- Bank account reconciliations
- Banking contracts and investment and collateral requirements
- Banking transactions such as initiating withdrawals, check payments, and electronic payment transactions such as ACH and wire transfers
- Employees' access and ability to initiate banking transactions via MnSCU's accounting system, in person at a bank location, or online
- Other controls such as positive pay, dollar limits, and dual controls or approvals

In addition to surveys, we reviewed relevant documentation such as MnSCU policies, procedures, and guidelines and considered risks of fraud and errors and potential noncompliance with finance-related legal requirements in designing our audit approach. We analyzed data to identify unusual transactions or significant changes and reviewed computer system to identify transactions that staff could initiate, approve, or process to determine whether duties were adequately separated. Finally, we selected a sample of transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with legal requirements and MnSCU policies, procedures, and guidelines.

Overall Conclusion

Colleges, universities, and the system office generally had adequate internal controls to provide reasonable assurance that banking activities were adequately safeguarded, accurately recorded in the accounting records, and complied with finance-related legal requirements. For items tested, colleges, universities, and the system office generally complied with significant finance-related legal requirements, including state laws, regulations, contracts, and applicable MnSCU policies, procedures, and guidelines.

We did, however, identify several internal control deficiencies that are discussed in Section III: Internal Control-Related Audit Findings and Recommendations. We also noted a few examples of noncompliance that are discussed in Section IV: Compliance-Related Audit Findings and Recommendations.

Finally, in Section V, we discuss two topics for system leaders to consider for future changes and continuous improvement.

Section III – Internal Control-Related Audit Findings and Recommendations

1. **Institutions lacked guidance to help them determine the appropriate banking controls needed to adequately address evolving risks, particularly as technology continues to change.**

MnSCU lacked policies, procedures, guidelines, or other guidance to help institutions identify banking related risks and appropriate internal controls to mitigate them. Some fundamental detective controls, such as bank account reconciliations, were a common practice performed monthly by each institution. However, other key controls, including those addressing risks associated with technology and online banking, varied greatly between institutions. These variances were not due to institution size or location.

Positive Pay
20 institutions did not use positive pay. Positive Pay[1] is a service offered by many banks where the bank matches the checks an organization issued with those presented to the bank for payment. The check issuer must provide the bank with an electronic file containing the check data needed for verification. Any check considered to be potentially fraudulent is not paid until it is reviewed and determined correct by the issuer.

Wire Transfers
Electronic wire transfers could be initiated online, in-person, or via a telephone call. Many institutions did not establish restrictions such as maximum dollar amounts allowed, who could receive wire transfer, or where funds could be transferred (e.g. international). Also, many did not require a second person to approve the transaction. In some cases, there were no restrictions or second approval required. A few had a restriction on the maximum dollar amount allowed but the limits were very high. One institution allowed wire transfers to be initiated online up to $15 million and did not require a second person to approve them. Wire transfers are a particularly risky transaction because the funds can be transferred almost immediately to anywhere in the world.

Online Banking
Online banking allows for convenience and speed; however, these benefits also make online banking very risky if additional controls are not implemented.

- Some online banking systems only required one form of authentication, a user account and password. Security best practices recommend a second form of authentication to also be used. The second form is often something the person has in their possession such as an authentication token or smart card.
- We identified four institutions that allowed employees to share logon accounts and passwords resulting in loss of accountability.
- Many employees accessed online banking systems using the same computer they used for all other job duties, including browsing web pages on the Internet and reading emails. These are common avenues criminals use to gain unauthorized access to banking

[1] An alternative to positive pay is reverse positive-pay. In this scenario, the issuer must self-monitor and alert the bank when it declines a check.

accounts. For example, unauthorized software may be installed by simply visiting a website or opening an email attachment. The software captures all key strokes, including account names and passwords, and sends the information to the criminals. Security best practices recommend highly secured single purpose computers or other alternatives be used for accessing online banking systems.

- A few institutions indicated they allowed employees to access online banking systems using mobile devices such as smartphones and tablet computers. Security best practices recommend highly secured devices or other alternatives be used for accessing online banking systems.

Direct Deposit
Many institutions use the MnSCU accounting system to produce an electronic direct deposit or “ACH” file that is subsequently transmitted to the bank to process Automated Clearing House or ACH transactions. 20 institutions use this method to pay student workers or to disburse financial aid overages to students.

Most institutions had employees use their computer to produce and store the ACH file before transmitting it to the bank. Practices varied where the ACH files were stored. Some employee’s stored the file on the computer used to generate the file; other’s stored them on removable media such as a usb drive, while other’s stored them in an electronic folder on the network where it may be accessible by others.

If unauthorized individuals were to gain access to these files, private data could be disclosed or the file could be modified to steal funds. Security best practices recommend highly secured single purpose devices or other alternatives be used for creating and transferring the files. Access to the files should be very limited and once the file is transmitted and processed the file should be deleted.

14 institutions do not use MnSCU accounting to produce the direct deposit file for student payroll or students who are owed a financial aid overage. Instead, they have contracted with a third party vendor who provides students alternative methods of payment. Institutions still need to create and transmit electronic files containing the data the vendor needs to pay students; typically this has been done by each institution’s information technology department. Practices varied where the files were stored. We did not review these processes in any depth but simply wanted to acknowledge that these processes and files are also sensitive and need to be protected.

Recommendation

- *Finance and information technology security professionals at the system office and institutions should work together to update minimum requirements and other guidance that will adequately address banking risks.*
  - *They should determine whether particular requirements should be considered in future contracts for banking and investment services.*

- *Colleges and universities should evaluate their internal controls over banking activities and implement changes, if necessary, to improve internal controls.*

2. Most institutions did not periodically and routinely review and recertify employee's access to bank and investment accounts.

Most institutions did not have procedures to periodically and routinely review and recertify employee's ability to perform sensitive banking actions such as creating accounts in the institutions name, withdrawing funds, or transferring funds. Since banking transactions can be initiated in person, via the telephone, or online, it is important to schedule and periodically review all of these.

- In person and telephone - Banks commonly require signature card authorization or other forms to be completed by an authorized employee at the institution. These forms indicate who is authorized to perform different actions. These forms should be updated timely when personnel changes occur.

- Online – Some banks create the logon accounts when requested by an institution while other banks have given institutions the ability to create their own logon accounts and assign each account roles to perform different actions. Employee's access should be revoked or modified when personnel changes occur.

Some institutions did not remove employee's authorization to perform banking actions in a timely manner. We reviewed signature card authorization forms for 13 institutions and found 4 institutions had not removed authorizations for 5 former employees. The former employees continued to have the ability to withdraw cash, create new accounts in the institution's name, or in one case, sell investments. These employees left employment six months to seven years earlier. In addition, two institutions granted banking authorization to employees on an interim basis because of personnel changes; however, the banking authorizations for those employees were not rescinded when the employees' interim responsibilities concluded. Unauthorized bank or investment account access or transactions could occur when authorizations are not updated in a timely manner.

Recommendations

- *Colleges and universities should ensure that all banking and investment authorizations are updated timely when employees leave employment or job responsibilities change. Institutions could consider adding a step to review banking authorizations as part of an employee's exit process when employment ends.*

- *Colleges and universities should periodically review and recertify employee's ability to perform banking and investment-related actions. The system office should consider whether to include this as part of its routine monitoring and chief financial officer certification program.*

3. Several colleges and universities did not adequately separate some job duties and some employees had unnecessary access.

We reviewed employee's job duties related to banking and investments for each institution. Some institutions did not adequately separate incompatible job responsibilities related to banking or investment activities.

- Twelve institutions allowed employees who performed bank reconciliations to also initiate banking transactions such as wire transfers, cash withdraws, ACH transactions, or print or sign checks.
- Eleven institutions allowed employees to initiate banking transactions such as wire transfers and cash withdraws while also having the ability to enter journal vouchers in the MnSCU accounting system.
- Five institutions allowed employees to perform investment account reconciliations and initiate investment transactions such as buying or selling investments.
- Sixteen institutions had employees who could add or modify student's direct deposit information in MnSCU's accounting system while also having the ability to download and transmit direct deposit files to the bank to be processed.

Without adequately separating duties or providing an effective mitigating control, unauthorized withdrawals or transfers could occur and not be detected.[2]

Finally, we identified several employees that were granted access to MnSCU's accounting system and could perform banking functions such as printing checks, creating journal vouchers, or processing direct deposit that may not be needed. Unauthorized changes or transactions may occur when security is not limited to employees that need access based on job responsibilities.

Recommendations

- *Colleges and universities should separate incompatible duties. If responsibilities cannot be separated, colleges and universities should develop, document, and implement effective mitigating controls.*

- *Colleges and universities should review employee's access to MnSCU's accounting system and their ability to perform certain functions such as printing checks, direct deposit activities, and creating journal vouchers and remove access that is not needed to perform job responsibilities.*

[2] In addition to the institutions noted above, nine institutions had similar segregation of duties issues. However, they asserted they had mitigating controls to address the risks. We did not test the effectiveness of those controls.

Section IV – Compliance-Related Audit Findings and Recommendations

4. Some institutions did not properly document authorization for employees to perform banking transactions as required by Board Policy.

Board Policy 7.5 Financial Institutions and Investments require the chancellor for the system office and presidents for individual colleges and universities authorize employees to sign checks or initiate movement of banking or investment funds. MnSCU Procedure 1A.2.2 Delegation of Authority allows the chancellor and presidents to delegate their authority to someone else.

We tested 13 institutions and 8 did not maintain clear documentation showing the president, or the president's authorized designee, approved employees for banking transactions.

- In most cases, institutions considered the bank's signature card authorization form, required by and maintained at the bank, to be its documentation to evidence the president's or other authorized individuals' approvals for signing checks or moving funds. These forms did not, however, include dates of signatures so we were unable to determine if the president approved all employees or employees had been added after the president originally approved the form. At one institution, the banking authorization form was signed by a president who retired over five years ago.

- MnSCU's delegation of authority form may be used to officially delegate the presidents' approval for banking or investment transactions. However, the current form is only required for "check disbursement." Institutions can modify the form and include other banking and investment functions in the category of "other." However, only 5 of the 13 institutions reviewed utilized the form to show the president's, or authorized designee's, approval for all employees involved with banking or investments. The other institutions did not think the form applied for non-check disbursement transactions. Utilization of the delegation of authority form provides clear authorization to employees.

Ensuring and documenting proper approval can be further complicated by online banking and other supplemental forms, such as wire transfer agreements, banks may require.

- <u>Online Banking</u>: Some banks allow institutions to have a designated system administrator. This person has the ability to grant other employees access to online banking without using the bank's signature card authorization form or MnSCU's delegation of authority form. At one institution, the online system administrator granted online banking access to three employees who were not included on the bank's signature card authorization form or MnSCU's delegation of authority form.

- <u>Wire Transfer Agreements</u>: At one institution, the Chief Financial Officer (CFO), rather than the President, authorized two employees to wire funds via a Funds (Wire) Transfer Agreement. The CFO had not been delegated the authority to authorize employees for banking transactions. Also, one of the employees listed on the Wire Transfer agreement was not included on the bank's signature authorization form signed by the president.

Recommendations

- *Colleges and universities should ensure employees that disburse checks or move investments or bank funds are properly authorized and documented, including the dates employees were added and approved.*

- *The system office should consider whether the MnSCU's delegation of authority form, or something else, should be used to document all banking and investment authorizations and provide guidance to institutions.*

5. Some colleges and universities did not bid out banking services as required by MnSCU procedure.

Three of thirteen institutions tested did not obtain competitive bids for some banking services or obtain approval to award banking services on a non-competitive basis. MnSCU Procedure 7.5.1 Local Cash and Investments require institutions bid out banking services at least once every five years. Institutions may award banking services on a non-competitive basis; however, institutions are to obtain approval from the Vice Chancellor for Finance.

Recommendation

- *Colleges and universities should obtain competitive bids for banking services every five years as required by MnSCU Procedure. If banking is awarded on a non-competitive basis, institutions should ensure approval is obtained in advance.*

6. Some colleges and universities did not maintain Federal Perkins Loan funds in an interest bearing account as required by federal regulations.

Federal regulations require that institutions maintain their Perkins Loan funds in an interest bearing account. We identified five institutions that maintained their Perkins Loan funds in non-interest bearing accounts.

Recommendation

- *Colleges and universities should maintain Federal Perkins Loan funds in interest bearing accounts.*

7. Some colleges and universities may not have complied with Minnesota Statutes regarding allowable investments.

We tested investments at eight institutions and found that two universities and the colleges associated with the Metro Alliance investment portfolio may have purchased unallowable investments per Minnesota Statute 118A.04 Investments.

- Colleges and universities are not authorized to invest in stock. However, one university had previously been authorized to move funds to the State Board of Investments (SBI) who invested those funds in stock; this was allowable as SBI operates under different statutory provisions. Subsequently, the university moved the funds out of SBI and continued to invest in stock on its own. At June 30, 2012, the stock was estimated at $1.6 million.

- One university's investment portfolio and the institutions associated with the Metro Alliance[3] investment portfolios contained items that may not be allowable investments – stripped investments[4] from the Financing Corporation, U.S. Treasury, and Fannie Mae. The stripped investments may be allowable investments depending on what entity stripped the investment; however, we were unable to determine this information. The combined fair market value at September 30, 2012 was approximately $365,000.

The system office referred the above information to the Attorney General Office to obtain further guidance on whether these investments are allowable.

Recommendations

- *The system office should continue to work with the Attorney General's Office to determine if the investments described above are allowable. If determined to be unallowable, they should determine how to remedy the situation.*

- *Each college and university should review their investments to ensure they are in compliance with Minnesota Statutes.*

8. Some institutions did not comply with Minnesota Statutes regarding brokerage requirements for investments.

Minnesota Statute 118A.04 Subd 9 requires institutions to annually provide their broker a written statement of their investment restrictions and the broker must provide written acknowledgement of their receipt of the statement. Of the 11 institutions we tested, 5 utilized a brokerage firm. We found that four institutions did not comply with brokerage requirements.

[3] The Metro Alliance consists of nine colleges and one university located in the metropolitan Twin Cities area. The Metro Alliance has a pooled investment portfolio. Not all institutions affiliated with the Metro Alliance participate in the investment portfolio.

[4] Stripped investments are created by stripping a marketable security into separate principal and interest components within the secondary market.

Recommendation

- *Colleges and universities utilizing brokerage firms must ensure they provide an annual written statement of investment restrictions to their broker. In addition, the broker must annually acknowledge, in writing, their acknowledgement of the restrictions.*

9. Some colleges and universities did not comply with collateral requirements.

Minnesota statutes require colleges and universities to collateralize certain bank accounts. Collateralization means the financial institution or bank pledges collateral, typically high-quality government securities, to protect deposits should the financial institution fail. Deposits are best protected by collateral that is held in safekeeping by an independent third party.

We tested collateral at 11 institutions and identified non-compliance in three areas. First, we noted that three institutions did not maintain sufficient collateral for the month we tested collateral. Second, we noted that two of the four institutions required to approve safekeeping of collateral did not do so. Third, five of five institutions that needed to comply with requirements related to perfecting collateral did not properly perfect collateral[5].

Finally, MnSCU Procedure 7.5.1 Local Cash and Investments does not include information related to approving safekeeping or perfecting collateral.

Recommendations

- *Colleges and universities should ensure they obtain sufficient collateral for account balances, approve safekeeping of collateral, and perfect collateral as required.*

- *Colleges and universities should consider modifying banking contracts to include provisions that would require banks provide sufficient collateral.*

- *The system office should update Procedure 7.5.1 Local Cash and Investments to include all collateral requirements for bank accounts.*

[5] Required by Federal Financial Institutions Reform, Recovery and Enforcement Act – 12 U.S.C. 1823 (2). Collateral perfection requires that either the bank's loan committee or the bank's board of directors approve the assignment of collateral.

Section V – Considerations for System Leaders

Two additional areas were identified during our audit that merit review of current practices and we offer the following recommendations to system leader.

- The system should evaluate its overall banking strategy as there may be opportunities to save money on banking services, standardize banking practices and improve controls, as well as maximize earnings on its funds.

- The system should evaluate whether there are opportunities to develop more standardized practices to facilitate the timely reconciliation of local bank accounts and also consider whether there is an opportunity to provide bank reconciliations as a shared service through the Campus Service Cooperative.

Opportunities to Save Money on Banking Services, Standardize Banking Practices, Improve Controls, and Maximize Earnings on System Cash Reserves

As discussed earlier in the report, colleges and universities manage many local bank accounts that significant amounts of funds flow through each year. Currently, each institution can negotiate its own banking contracts. Table 3 shows the current banking relationships for institution's primary checking accounts.

Table 3
Banking Relationship for Institutions' Primary Checking Account

Banking Institution	Number of Institutions
Bremer	17
US Bank	9
Wells Fargo	8
Other Financial Institutions	5
Total	**39**

Source: Internal audit survey of institutions in the fall of 2012

In 2010, the 10 metro institutions that comprise the Metro Alliance, collectively issued an RFP for banking services. Nine of these institutions selected Bremer bank one selected Wells Fargo. We believe there may be additional opportunities if MnSCU were to RFP banking services for the entire system. With a system-wide RFP and expectation that institutions participate in the selected vendor or vendors, the system could likely negotiate better fee rates with the banks. It would also be an opportunity to ensure banks provide the minimum desired controls and colleges and universities implement consistent controls such as positive pay and limits and controls related to wire transfers.

Colleges and universities had varying practices in their management and investing of local cash. Table 4 illustrates the investment choices colleges and universities were utilizing. Nine institutions did not have a savings account or any other type of investment and one institution had only a savings account. One of these institutions indicated they did not utilize investments because of low investment rates; instead, the college was able to reduce banking fees through an earnings credit. Some institutions maintained limited investments such as certificates of deposits. Seven institutions (including five universities) maintained more extended investment portfolios such as bonds, treasury bills, and mortgage backed securities.

Table 4
Types of Investments at Colleges and Universities (see note)

Types of Investments	Universities	Colleges
No savings account or other investments	1	8
Savings account only	0	1
Certificates of Deposits only	0	5
Repurchase Agreements	2	5
Money Market or Pooled Investments	4	11
Other investments such as GNMAs, Bonds, Treasury Bills	5	2

Source: Internal audit survey of institutions in the fall of 2012.
Note: Institutions may hold more than one type of investment; therefore, institutions may be noted in more than one of the last three categories.

Table 5 shows local cash balances for 10 institutions at June 30, 2012. Of the 10, five did not invest any locally held funds, while the other five had more extensive investment portfolios. Although the balances given below are for a specific point in time, some of the balances are rather significant.

We believe there are opportunities to manage local cash more effectively, add earnings for institutions that have not previously invested, and maximize earnings on those institutions already investing. This would be particularly effective if all institution local funds were pooled and then invested. However, colleges, universities, and the system office lack sufficient resources with investment expertise. Also, Minnesota statutes restrict the types of investments MnSCU can use. One consideration to overcome these challenges would be to use the State of Minnesota. The State of Minnesota has the infrastructure and expertise to manage cash and investments. The State Board of Investment (SBI) employs finance and investment professionals that specialize in specific investments types. At December 31, 2012, these individuals were responsible for managing nearly $62 billion in investment activity. SBI has some flexibility to invest in a variety of short and long term investments, including common stock, bonds, short term securities, and others.

Table 5
Local Cash Balances of Selected Institutions as of June 30, 2012

Investment Activity	Institution	Cash Balance of Local Primary Checking Account
Institutions do not have savings accounts or any other local investment activity	College A	$1,053,184
	College B	$1,647,000
	University C	$2,163,000
	College D	$3,349,602
	College E	$4,273,219
Institution holds a variety of investments(see note)	College 1	$1,767,000
	University 2	$2,388,000
	University 3	$3,153,000
	University 4	$9,527,000
	University 5	$10,179,000

Source: For audited institutions, information is from Note 2 of the institution's 2012 audited financial statement. For the non-audited institutions, information submitted by institutions to Finance Division in preparation of fiscal year 2012 financial statements.

Note: Cash balances do not reflect additional investments held such as certificates of deposits or other investments. Balances include amounts held in repurchase agreement sweeps which sweep excess funds at the end of each day, invest funds overnight, and return cash to the account the following morning.

Recommendations

- *System leaders should evaluate banking practices and determine whether there are sufficient benefits to warrant going out for RFP for the entire system to select one or more vendors for banking services.*

- *System leaders should evaluate system-wide cash flow needs and determine whether there are sufficient benefits to pool and invest local cash in a variety of short-term, mid-term, and long-term investments. As part of this, leaders should consider pooling cash with the State of Minnesota.*

Local Bank Reconciliations

The amount of time spent on reconciling local bank accounts monthly varied significantly among colleges and universities. When surveyed, we asked each college and university to indicate how much time was spent reconciling their primary checking account. University responses ranged from 15 – 200 hours and college responses ranged from 5 to 80 hours per month. In some cases, similarly sized institutions spent considerably different amounts of time on reconciliations.

Because of such variation, we looked at the bank reconciliation process at four institutions to see if there were best practices that could be shared with other institutions. The following are some of the leading practices that helped those institutions complete reconciliations more efficiently and effectively.

- Ongoing review of bank activity: bank activity was reviewed daily to ensure transactions were properly recorded in the MnSCU accounting system. Frequent or ongoing reconciliations allowed for fewer month-end reconciling items and a quicker reconciliation at month end. This is also noted as a best practice in banking controls for noting irregularities timely.
- Timely entry: cash and credit card receipts were entered into the MnSCU's accounting system timely.
- Better use of bank data: downloading the bank statement data into manageable groups such as EFTs, credit cards, and sweeps, made it simpler and more efficient.
- MnSCU accounting data: having a good understanding of accounting data and tools available to obtain and analyze it helped facilitate the process. Knowing how MnSCU accounting data fields are populated allowed institutions to change their practices on how things are coded to help simplify reconciliations. For example, one institution determined that receipting EFT transactions in a separate cash session allowed for a quicker reconciliation.
- Credit card merchant numbers: institutions that utilize a large number of merchant credit card machines need to develop procedures for entering that information into ISRS in a manner that allows the data to be queried easily. For example, the receipt reference field can be coded in a manner that allows the person performing the bank reconciliation to easily query data and reconcile receipt activity for multiple credit card merchant numbers.

Recommendations

- *MnSCU should consider developing and documenting additional guidance to help institutions standardize practices and simplify the reconciliation process.*

- *MnSCU should consider whether it would be beneficial to include bank reconciliations as a shared service provided through the Campus Service Cooperative.*

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Minnesota
STATE COLLEGES
& UNIVERSITIES

April 9, 2013

Board of Trustees
Chancellor Steven Rosenstone
Minnesota State Colleges and Universities

The Office of the Internal Auditing has completed an internal control and compliance audit of banking controls. The audit was undertaken as a part of the new approach to auditing particular business cycles across all colleges and universities rather than a deeper review of an individual college or university. We view the completed audit as a very helpful contribution of our understanding of the system and the campus control environment, areas of compliance concerns and the opportunities present for improvement.

It is the auditor's opinion that "the colleges, universities and system office generally had adequate internal controls to provide reasonable assurance that banking activities were adequately safeguarded, accurately recorded in the accounting records and complied with finance-related legal requirements. However, in the course of the audit, some instance of internal control deficiencies and a few examples of noncompliance were noted."(page 5 of report)

Management of the system office and the colleges and universities have already undertaken remedies for some of these findings. Additional follow up work will continue in the upcoming months. Additionally, a work group of campus chief financial officers will be formed to look at some of the process improvements and best practice suggestions identified in the report. The comments concerning the development of an overall banking strategy for the system will be acted on this year as a part of the work of the Finance division.

The auditor's overall conclusion of confidence in the control environment serves as assurance to the Board of Trustees, Chancellor Rosenstone and the public that care and stewardship are exercised in all areas as it relates to local cash accounts across the system.

Warm regards,

Laura M. King
Vice Chancellor – CFO

Enclosure