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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

**Minnesota State University, Mankato**  
**Special Review: American Indian Student**  
**Association**



MARCH 17, 2005

05-21

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



**OFFICE OF THE LEGISLATIVE AUDITOR**  
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair  
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Dr. Richard Davenport, President  
Minnesota State University, Mankato

We have conducted a special review of the American Indian Student Association, a student organization affiliated with the Minnesota State University, Mankato for the period September 1999 through May 2004. Students of the association raised questions about the amount of money in the association's checking account and believed funds were missing.

The university conducted a preliminary investigation into the concerns raised about the financial activities of the association. However, the university did not gain the full cooperation of the faculty advisor and could not gain access to the association's bank records. In May 2004, Minnesota State Colleges and Universities' Office of Internal Audit asked the Office of the Legislative Auditor to review the concerns over the faculty advisor's management of the American Indian Student Association's finances. Based on the information obtained, we decided to pursue the matter further and issue this special report.

The following Report Summary highlights our objectives and conclusions. We discuss the issues more fully in the individual chapters of the report.

Pursuant to *Minnesota Statutes* 3.975, we have referred this report to the Attorney General and Blue Earth County Attorney. The Office of the Attorney General has the responsibility to ensure the recovery of state funds and, in fulfilling that role, may negotiate the propriety of individual claims. The county attorney shall cause criminal proceedings to be instituted as the evidence may warrant.

The report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State University, Mankato. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

Report Signed On: March 14, 2005

# Special Review: American Indian Student Association Minnesota State University, Mankato

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### Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations
Laura Peterson, CPA	Team Leader

### Exit Conference

The following representatives from the Minnesota State University, Mankato participated in the exit conference held on March 4, 2005:

Chancellor's Office:

Laura King	Vice Chancellor, Chief Financial Officer
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Financial Reporting Director
John Asmussen	Executive Director, Internal Auditing

Minnesota State University, Mankato:

Pat Swatfager-Haney	Vice President, Student Affairs
Lori Lamb	Director of Human Resources

# Special Review: American Indian Student Association Minnesota State University, Mankato

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## Report Summary

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### Key Findings:

- The American Indian Student Association did not maintain adequate records to support its financial activity. (Finding 1, page 6)
- The association's faculty advisor spent \$3,110 in association funds that could not be reasonably explained or supported. The advisor admitted use of association funds for personal reasons and has repaid \$500. Pursuant to *Minnesota Statutes 3.975*, we have referred this report to the Attorney General and Blue Earth County Attorney for further action. (Finding 2, page 7)
- MnSCU needs to review its procedures for oversight of student organizations to ensure there is appropriate accountability for financial activities. (Finding 3, page 10)

The audit report contained 3 audit findings relating to internal control.

### Audit Scope:

#### Audit Period:

September 1999 – May 2004

#### Selected Audit Areas:

- American Indian Student Association's receipts and disbursements

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### Background:

The American Indian Student Association is a recognized ethnic student organization at the Minnesota State University, Mankato. The association's mission is to increase and spread the awareness of the American Indian culture throughout the university and the local community. The association sponsored several events, including an annual powwow. The association collected money from fundraising events and donations made by individuals and Native American communities. The association's local bank account reflected receipts and disbursements of about \$1,000 each year, with the exception of calendar year 2001 when the association sponsored a large powwow and collected and disbursed over \$15,000.

**Special Review: American Indian Student Association  
Minnesota State University, Mankato**

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# **Special Review: American Indian Student Association Minnesota State University, Mankato**

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## **Chapter 1. Introduction**

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The American Indian Student Association's mission is to increase and spread the awareness of the American Indian culture throughout the Minnesota State University, Mankato and in the local community. The organization began in 1983 and has been overseen by three to four student officers and a faculty advisor. The number of students participating in association activities varied, with as many as 12 to 16 students.

In the fall of 1993, Minnesota State University, Mankato hired Mr. Ben Benson as the Assistant Director of American Indian Affairs. Part of Mr. Benson's duties was to serve as the advisor for American Indian student organizations helping develop, train, and guide the leaders of the organizations in planning cultural events, workshops, community projects, and fund-raising activities. Mr. Benson was formally removed as the advisor to the American Indian Student Association in March 2004.

To accomplish its mission, the American Indian Student Association received donations from Native American communities and individuals. In addition, it periodically sponsored Indian taco sales at the university. The association used the receipts to pay expenses for cultural events, including a powwow held each spring. The association had an account on the university's accounting system; however, in September 1999, the faculty advisor opened a bank account, independent of the university, under the name Indian Student Association. MnSCU policy allowed student organizations that did not receive student activity fee money to maintain their funds in a local bank account.

Our review was limited to the American Indian Student Association's local bank account and the association's financial information recorded on MnSCU's accounting system. Our review did not include association financial activity recorded in other MnSCU accounts, such as the Ethnic Student Activities Account. Table 1-1 shows the financial activity recorded in the local bank account.

**Special Review: American Indian Student Association  
Minnesota State University, Mankato**

**Table 1-1  
Local Bank Account  
Receipts and Disbursements  
September 1999 through March 2004**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Beginning Cash</b>	\$ 0	\$133	\$ 27	\$ 898	\$204	\$195
<b>Receipts:</b>						
Unidentified Cash Receipts	\$752	\$219	\$ 703	--	\$479	--
Indian Community Donations	--	300	12,125	\$ 400	--	--
Individual Donations and Other	<u>177</u>	<u>358</u>	<u>3,263</u>	<u>594</u>	<u>15</u>	<u>--</u>
Total Receipts	<u>\$929</u>	<u>\$877</u>	<u>\$16,091</u>	<u>\$ 994</u>	<u>\$494</u>	<u>\$ 0</u>
<b>Disbursements:</b>						
Unsupported Checks written to Cash (Note 1)	\$220	--	\$ 6,675	\$1,439	\$150	\$125
Fund Raising Supplies	130	\$164	464	45	353	--
Restaurants	151	254	--	144	--	36
Lodging/Hotels	--	300	625	--	--	--
Powwow Expenses (Note 2)	--	--	6,755	--	--	--
Other	<u>295</u>	<u>265</u>	<u>701</u>	<u>60</u>	<u>--</u>	<u>49</u>
Total Disbursements	<u>\$796</u>	<u>\$983</u>	<u>\$15,220</u>	<u>\$1,688</u>	<u>\$503</u>	<u>\$ 210</u>
<b>Ending Cash</b>	<u>\$133</u>	<u>\$ 27</u>	<u>\$ 898</u>	<u>\$ 204</u>	<u>\$195</u>	<u>\$ (15)</u>

Note 1: In April 2001, the American Student Association held its annual powwow. Cash payments totaling \$5,850 were allegedly used to pay for prizes, honorariums, and other expenses related to the powwow. However, due to the lack of documentation, we were unable to confirm these cash expenditures.

Note 2: The university recorded certain financial transactions related to the 2000 and 2002 powwows in other accounts on MnSCU accounting, such as the Ethnic Student Activities Account. The association did not sponsor powwows in 2003 or 2004.

Source: The American Indian Student Association's checking account records from September 20, 1999, through March 16, 2004, and the Minnesota State University, Mankato's accounting records.

In May 2004, Minnesota State Colleges and Universities' Office of Internal Audit asked the Office of the Legislative Auditor to review concerns over the faculty advisor's management of the American Indian Student Association's finances. Students at the university raised questions about the amount of money in the association's checking account and believed funds were missing from the account. The university conducted a preliminary investigation but did not gain the full cooperation of the faculty advisor and could not gain access to the association's bank records. The university requested that the Office of the Legislative Auditor review the association's financial activity. Based on the information obtained, we decided to pursue the matter further and issue this special report.



## Chapter 2. Administration of Association Funds

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### *Chapter Conclusions*

*The American Indian Student Association did not maintain adequate records to support its financial activity. Neither the faculty advisor nor the student members could produce financial records that supported the receipt or disbursement of association funds. Without supporting documentation, we were unable to conclude whether all receipts were properly deposited into the association's account and whether all disbursements were for the intended purpose of the association.*

*The faculty advisor of the American Indian Student Association wrote checks totaling about \$7,500 from association funds. We found reasonable explanation for certain of these expenditures; however, \$3,110 could not be explained or supported. During his sworn statement, the faculty advisor indicated that certain of the expenditures from the association account were for his personal benefit. In May 2004, the faculty advisor repaid \$500 to the university after student members complained of missing funds, leaving a balance of \$2,610 to be recovered.*

*MnSCU needs to review its procedures for oversight of student organizations to ensure there is appropriate accountability for financial activities.*

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### **Objective and Methodology**

Our objective in conducting this special review was to answer the following question:

- Were the American Indian Student Association's finances properly managed?

To answer this question, we subpoenaed the association and faculty advisor's bank records. We also reviewed the university's accounting records related to the association and interviewed selected university employees and students. In addition, we took sworn testimony from the faculty advisor. Our review was limited to the American Indian Student Association's local bank account and the financial information recorded on the MnSCU accounting system specific to the association. Our review did not include association financial activity recorded in other MnSCU accounts, such as the Ethnic Student Activities Account.

Our review identified significant concerns about the faculty member's role in advising the American Indian Student Association on fiscal matters. In addition, we made recommendations

## **Special Review: American Indian Student Association Minnesota State University, Mankato**

to the Minnesota State University, Mankato and the Minnesota State Colleges and University System Office to improve their oversight of student organization finances. We discuss these issues in the following findings.

### **Findings and Recommendations**

#### **1. The American Indian Student Association did not maintain adequate records to support its financial activity and did not comply with its financial policies.**

The faculty advisor and student members could not provide financial records to support the receipt or disbursement of association funds. Also, they did not follow the association's financial policies as outlined in the association's constitution. Without supporting documentation, we were unable to conclude whether all receipts were properly deposited into the association's account and whether all disbursements were for the intended purpose of the association. There were several areas in which the association's records were missing or incomplete:

- The local bank records were not available to the students or the university. The bank mailed the monthly bank statements to the faculty advisor's attention at a university address. However, when requested by university personnel and our office to produce the monthly bank statements, the faculty advisor stated he did not have any records. Student members did not review or receive copies of the association's bank statements.
- The association did not maintain adequate financial records relating to fundraising events. Once or twice a year, the association sponsored Indian taco sales to raise funds. The students purchased groceries, prepared the food, and worked at the sale. A student member said the faculty advisor would deposit the taco sale receipts. With the exception of one sale, the association did not have a record of receipts collected nor did they maintain grocery receipts to document costs incurred.
- The association did not maintain adequate records for the annual powwow expenses. The association hosted annual powwows from 1999 through 2002. In April 2001, the association hosted their largest powwow at the Mankato civic center. The association budgeted between \$5,850 and \$7,600 for cash prizes and honorariums. We were unable to obtain a detailed accounting of the cash payments from the faculty advisor, students, or the university. According to the faculty advisor, the Indian community typically conducts business in cash. Conducting financial transactions in cash is a poor business practice in general. Specifically, cash honorariums could potentially result in noncompliance with IRS tax regulations. One individual budgeted to receive \$350 was the faculty advisor's brother who was scheduled to be the powwow arena director.

The association also did not comply with its constitution regarding the powers and duties of its executive officers. The association's constitution provided for an executive board made up of the president, vice president, secretary, and treasurer. According to the organization's constitution, the treasurer was responsible for maintaining all funds and keeping all records

## **Special Review: American Indian Student Association Minnesota State University, Mankato**

relating to the receipt and disbursement of funds. The treasurer was also responsible for ensuring correct procedures were followed when withdrawing money. The constitution required the faculty advisor's signature on the withdrawal statements along with the executive board's authorization. Beginning in March 2001, the association had no treasurer, and the faculty advisor had sole access to the local bank account.

### *Recommendations*

- *The American Indian Student Association should ensure it maintains proper documentation to support the receipt and disbursement of funds.*
- *The American Indian Student Association should ensure it complies with its constitution regarding the duties of its executive board and administration of funds.*

## **2. The faculty advisor expended \$3,110 that could not be adequately explained or supported.**

The faculty member expended nearly \$7,500 of association funds for which there were no invoices or supporting documentation. Association meeting minutes and agendas provided some evidence that \$4,390 of these expenses related to association events, although we did not find complete documentation of the financial activity related to these events. The remaining \$3,110 expended by the faculty advisor could not be reasonably explained or supported and appears to have provided a personal benefit to the advisor. The university requested the faculty advisor repay the association \$500 based on what student members believed was missing from the association's bank account. In May 2004, the faculty advisor reimbursed the American Indian Student Association account \$500 from a personal account. During his sworn statement, Mr. Benson indicated that certain of the expenditures from the association account were for his personal benefit. Table 2-1 summarizes the checks written by the faculty advisor. We compared the financial activity to information obtained from student members, including copies of meeting agendas and minutes.

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Minnesota State University, Mankato**

**Table 2-1  
Disbursements Made by the Faculty Advisor  
September 1999 through March 2004**

Payee	Total <u>Disbursements</u>		Total <u>Questioned</u>	
	<u># Checks</u>	<u>Amount</u>	<u># Checks</u>	<u>Amount</u>
Cash <sup>(1)</sup>	20	\$5,809	18	\$2,709
Hotels	3	601	--	--
Grocery Stores	2	353	--	--
Restaurants	6	201	5	180
Bookstore	1	150	1	150
Students	3	124	--	--
Guest Speaker	1	100	--	--
Gas Stations	4	63	4	63
Miscellaneous	<u>5</u>	<u>92</u>	<u>1</u>	<u>8</u>
Total	<u>45</u>	<u>\$7,493</u>	<u>29</u>	<u>\$3,110</u>
Less Amount Repaid <sup>(2)</sup>				(\$500)
Balance to be Paid				<u>\$2,610</u>

Notes:

(1) We did not question a check written to cash totaling \$3,050. In April 2001, the faculty advisor received \$3,050 in cash and a student member received \$2,800 in cash to allegedly pay for prizes, honorariums, and other expenses related to the powwow. Various budget documents for the 2001 powwow estimated between \$5,850 and \$7,600 for honorariums and other expenses that were traditionally paid in cash. However, due to the lack of documentation, we were unable to confirm these cash expenditures.

(2) In May 2004, the faculty advisor repaid the American Indian Student Association account \$500 from a personal account.

Source: Auditor prepared based on the American Indian Student Association's bank statements and cancelled checks.

The questioned costs did not provide value to the American Indian Student Association's mission. The faculty advisor wrote these checks without the approval of the student association.

- **Cash:** Nearly 90 percent of the questioned costs were checks written for cash. Nine checks totaling \$1,275 were written during summer and winter breaks when the student association had no scheduled activities. For example, the faculty advisor wrote checks made payable to cash for \$200 and \$100 on December 31, 2002, and December 31, 2003, respectively. From August 3, 2001, through September 28, 2001, the only checks written on the association account were four checks written to cash totaling \$825. The faculty advisor wrote the checks for even dollar amounts (\$100, \$150, \$275 and \$300) with three of the four checks written on a Friday. When the faculty advisor was asked about certain of these transactions, he stated the he did not know or could not remember them.
- **Restaurants:** The faculty member wrote five checks totaling \$180 to local restaurants. Student members did not recall the expenditures and questioned the purpose of the

## Special Review: American Indian Student Association Minnesota State University, Mankato

restaurant charges. The faculty advisor indicated that he would take prospective students out to lunch or dinner when they visited the campus. We question the appropriateness of the faculty advisor using the student association account for recruitment purposes.

- **Bookstore:** The faculty member wrote one check for \$150 to the campus bookstore. The faculty advisor stated that he used association funds to purchase books for a student member who was attending summer school. We confirmed the student's attendance at summer school; however, we question whether this is an appropriate use of association funds. We also noted frequent disbursements to the bookstore in our review of the advisor's personal bank account.
- **Gas Stations:** In March 2004, the faculty advisor wrote four checks totaling \$63 to local gas stations. Student members did not recall association events that would require any purchases at local gas stations.
- **Miscellaneous:** In February 2002, the faculty advisor wrote a check for \$8 to the United States Postal Service. The memo line of the check did not indicate the purpose of the expenditure.

The faculty advisor continued to write checks on the American Student Indian Association bank account after he was no longer the association's advisor. The annual Student Organization Recognition Form, prepared by student members and approved by the university in October 2003, indicated another faculty member had agreed to be the association's advisor. However, from November 2003 through March 2004, Mr. Benson wrote 12 checks, totaling \$500, on the association's bank account. Mr. Benson stated that he remained the association's faculty advisor until March 2004.

The faculty advisor was responsible to ensure that the association used its funds for reasonable and necessary expenses. Money that the faculty advisor spent that did not contribute to the mission of the association resulted in fewer funds being available for students. The Minnesota State University, Mankato and other supporters relied on the faculty advisor to manage funds exclusively to further the association's stated mission and objectives.

### *Recommendation*

- *The university should work with the Attorney General's Office to recover American Indian Student Association funds totaling \$2,610 from the faculty advisor.*

## **Special Review: American Indian Student Association Minnesota State University, Mankato**

### **3. The Minnesota State Colleges and Universities' (MnSCU) procedures allow certain student organizations to deposit and expend funds outside of the MnSCU accounting system.**

MnSCU procedures allowed those student organizations, that do not receive funding from student activity fees, to deposit and expend funds outside of the university accounting system. When a student organization receives funding from sources other than the university, the organization may either request the university to manage its financial activity or it can establish an outside bank account. MnSCU Procedure 2.8.1, Subpart B states:

Each institution shall provide for the fiscal management of student organization accounts. A student organization which receives allocations of student activity monies, shall deposit and expend all allocations through an account within the institution activity fund. Student organizations that receive funding from sources other than the institution may establish an agency account for such funds, at the institution's discretion.

There are risks associated with allowing recognized student organizations to establish local bank accounts. As discussed in Findings 2 and 3, student organizations may not have adequate controls over the receipt and disbursement of funds to reduce the risk of misuse or misappropriation. In addition, when recognized student organizations establish local bank accounts, MnSCU institutions may not have access to the financial records. Although the American Indian Student Association had an account on the university's accounting system, the association opened a checking account at a local bank. The faculty advisor said he opened the bank account as a matter of convenience because university policies and procedures prevented timely access to association funds. The faculty advisor opened the account, Indian Student Association, using his own social security number and a Minnesota State University, Mankato address. The association's student treasurer at the time was also listed as an authorized signer on the account. The manner in which the bank account was established prevented the university from gaining access to the bank information when it received student complaints.

The university became responsible for this organization when it named the American Indian Student Association an authorized student organization. In addition, when the university assigns a faculty member to a student organization, it gives the appearance that the university is overseeing the group's activities and ensuring any funds received or expended are used for their intended purpose. The university has a fiduciary responsibility for student organizations that it sanctions, as these groups would not exist in the absence of the university.

#### *Recommendations*

- *MnSCU should review its procedures for oversight of student organizations to ensure there is appropriate accountability for financial activities.*
- *If MnSCU continues to allow student organizations to administer financial activities in outside bank accounts, it should ensure that the accounts are properly established so that MnSCU management has access to the bank records.*

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MINNESOTA STATE  
UNIVERSITY  
MANKATO

March 11, 2005

James R. Nobles  
Legislative Auditor  
State of Minnesota  
Room 140 Centennial Building  
658 Cedar Street  
St. Paul, MN 55155-1603

RE: Response to Draft Audit Report on Mankato American Indian Student Association

Dear Mr. Nobles:

I want to thank you and your staff for addressing this issue that was presented to the Office of Legislative Audit from Minnesota State University, Mankato. We sincerely appreciate the time and effort invested in helping gather information necessary to allow us to adequately understand the issues involved in this matter.

I have consulted with the current faculty advisor for the American Indian Student Association, Dr. Gwen Griffin. In response to Finding 1 Dr. Griffin indicates that the American Indian Student Association has taken the following steps to ensure it maintains proper documentation to support its financial activities and to comply with its constitution.

1. Established a university account through the Office of Business Affairs for the receipt and disbursement of all funds. The university account will generate a monthly activity report and requires the signatures of the faculty advisor and a member of the AISA executive board for disbursement.
2. Elected an executive board including a treasurer and ensured that each member reviewed and would abide by the organization's constitution regarding the administration of funds and the execution of their responsibilities.
3. Required that at least two board members administer, count, and report the proceeds of all fundraising events and that the treasurer maintain copies of all receipts. Records will now be maintained and passed to the next year's executive board.

With respect to Finding 2, Minnesota State University, Mankato will work cooperatively with the Attorney General's Office, or any other entity, to begin collection efforts from Ben

James R. Nobles

March 11, 2005

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Benson of the funds identified in the OLA report. In addition, Minnesota State University, Mankato will determine if any further action, including possible disciplinary action, is appropriate.

With respect to Finding 3, we have also been in discussion with the Vice Chancellor – Chief Financial Officer and have her assurance that the issues raised in the special review that have system wide impact are already under examination. She indicated that policies and practices concerning the establishment and administration of outside bank accounts will be examined and it is expected that changes in procedure will occur.

Again, we thank you for your work on this issue and appreciated the cooperation and professionalism of your staff.

Sincerely,

*/s/ Patricia Swatfager-Haney*

Patricia Swatfager-Haney

Vice President for Student Affairs

cc: Chancellor James H. McCormick  
President Richard Davenport  
Laura King, Vice Chancellor – Chief Financial Officer