



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

South Central Technical College
July 1, 1998, through December 31, 1999



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 fifty 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 and one best practices review.

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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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Keith Stover, President
South Central Technical College

We have audited selected areas of South Central Technical College for the period July 1, 1997, through December 31, 1999, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, administrative expenses, and bookstore and food service operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that South Central Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of South Central Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 17, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 5, 2000

Report Signed On: August 14, 2000

South Central Technical College

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Pat Ryan	Auditor-In-Charge
John Hakes, CPA	Auditor
Connie Stein	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of South Central Technical College and the MnSCU system office at the exit conference held on August 8, 2000:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Marilyn Hansmann	Audit Coordinator of Internal Auditing

South Central Technical College:

Keith Stover	President
Rick Straka	Vice President of Financial Operations

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Report Summary

South Central Technical College operated within available resources. Except as noted below, the college complied with applicable legal provisions and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded.

Key Findings:

- The college needs to improve controls over certain resale revenues. (Findings 1 and 2, pages 10-11)
- The college did not allocate indirect costs to the bookstore and food service operations or reflect the benefit of services the bookstore provided to the college's general operations. (Finding 3, page 11)
- The college did not adequately document some employee travel expenses and paid membership dues at a private club. (Finding 4, page 16)

College Response:

South Central Technical College agreed with the report's findings and is taking corrective action to resolve the issues.

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South Central Technical College

Chapter 1. Introduction

South Central Technical College is a two-year college whose mission is to provide quality higher education for employment and continuous learning. The college has two campuses that are located in Mankato and Faribault.

South Central offered more than 40 program majors in agribusiness, health and safety, business and marketing, and technical and industrial occupational areas. The college also offered customized educational options on each of its campuses. The full-time equivalent student population at the college was 2,380 for the 1998-99 school year. Dr. Ken Mills served as president of the college until his retirement in June 1999. Dr. Keith Stover has served as South Central's president since July 1999.

Each campus has a contractual relationship with a foundation. The *South Central Technical College -Mankato Campus Foundation* and the *Faribault Vocational Technical Trust Association Foundation* exist to provide student scholarships and support specified campus activities. The foundations had annual audits of their financial activities.

The college financed its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocated the system-wide appropriation to its individual institutions based on a formula. Table 1-1 provides a summary of South Central's sources and uses of funds for the fiscal year ended June 30, 1999.

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**Table 1-1
Sources and Uses of Funds ⁽¹⁾
Fiscal Year Ended June 30, 1999**

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise ⁽²⁾</u>
Revenues:			
State Appropriation	\$12,489,837	\$ 0	\$ 0
Tuition and Fees	6,033,504	116,020	0
Sales and Services, Net ⁽³⁾	211,619	274	382,220
Federal Grants	0	1,853,353	0
State Grants	2,036,215	0	0
Private Grants	72,757	57,198	0
Other Income	<u>164,258</u>	<u>29,941</u>	<u>5,902</u>
Total Revenues	<u>\$21,008,190</u>	<u>\$2,056,786</u>	<u>\$388,122</u>
Expenses:			
Salaries	\$13,217,201	\$ 597,764	\$274,311
Purchased Services	2,275,665	186,074	39,867
Utilities	495,168	942	15
Contract/Consultants	485,252	57,219	0
Supplies	1,963,730	81,242	21,576
Financial Aid	796,698	1,062,376	1,113
Capital Expenditures	1,137,710	7,847	(9,627)
Debt Service-Interest	17,197	0	0
Other Expenses	<u>192,067</u>	<u>46,319</u>	<u>8,576</u>
Total Expenditures	<u>\$20,580,688</u>	<u>\$2,039,783</u>	<u>\$335,831</u>
Transfers:			
Transfers-In	\$ 1,273	\$ 0	\$ 0
Transfers-Out	<u>0</u>	<u>0</u>	<u>(4,119)</u>
Net Transfers	<u>\$ 1,273</u>	<u>\$ 0</u>	<u>\$ (4,119)</u>
Change in Fund Balance	\$ 428,775	\$ 17,003	\$ 48,172
Beginning Fund Balance			
FY 1999 Balance Forward	<u>2,508,408</u>	<u>129,389</u>	<u>361,559</u>
Ending Fund Balance ⁽⁴⁾	<u>\$ 2,937,183</u>	<u>\$ 146,392</u>	<u>\$409,731</u>

Note 1: This statement is prepared on the budgetary basis of accounting and is provided for informational purposes only. MnSCU Accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from generally accepted accounting principles. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures are the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not reflect assets such as accounts receivable and prepaid assets, or long-term liabilities such as debt and compensated absences. The college estimated that compensated absences as of June 30, 1999, were \$1,280,469.

Note 2: Enterprise funds did not include all allocable costs such as utilities and administrative costs. However, the enterprise fund's activities included certain administrative services, such as tuition collection, that provided benefit to the college's general operations. In Finding 4, we recommend that the college quantify the allocable costs and the benefit to the college's general operations.

Note 3: Sales and Services, Gross \$1,039,352
 Cost of Goods Sold (657,132)
 Sales and Services, Net \$ 382,220

Note 4: Fund Balance for the General Fund includes: \$1,608,130 for required general operating reserve; \$525,000 for customized training, state grants, and restricted repair and betterment balances; \$100,000 for fiscal year 1999 encumbrances paid in fiscal year 2000; \$549,000 for Printing and Graphics; and \$155,052 for a one-time carry forward of commitments.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

South Central Technical College operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization.

The college's internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded on the MnSCU accounting system and the state's accounting system. The college designed controls to sufficiently mitigate the risks of some incompatible system access.

The college complied with applicable legal provisions regarding local bank accounts.

Finally, the college maintained an appropriate operating relationship with its foundations.

South Central Technical College used the MnSCU accounting system to record its financial activity and to initiate transactions. The MnSCU accounting system interfaced with the state's accounting system to generate warrants from the state treasury for certain activities. MnSCU required all campuses to use the MnSCU accounting system to account for money maintained within the state treasury and local activity accounts maintained outside the state treasury. South Central administered certain funds, such as financial aid, agency accounts, and enterprise activities at a local bank. The local bank also served as the college's state depository and link to the state treasury.

Audit Objectives and Methodology

The primary objectives of our review of South Central's financial management structure were to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that the college adequately safeguarded its assets and properly recorded its financial activities on the MnSCU and the state's accounting systems?

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- For the items tested, did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college's internal controls provide reasonable assurance that it maintained an appropriate operating relationship with its foundations?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system and how the college used the system for each of the individual program areas we audited. We gained an understanding of the management controls, such as budget monitoring, and reconciliations in place over state treasury and local bank activities. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We reviewed security privileges to determine whether the college adequately limited access to its computerized business systems. We reviewed local bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency. We also reviewed the college's relationship with its foundations.

Budgetary Controls and Financial Operations

MnSCU received the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocated appropriated funds to South Central based upon an allocation formula. In addition, South Central retained the tuition and other receipts it collected to determine the basis for its annual budget.

Once the college determined its authorized spending level, it established spending budgets for various administrative areas and academic departments. The business office monitored the budgets at a cost center level using monthly budget reports from MnSCU accounting. In addition, individual cost center managers received detailed expenditure reports.

Conclusions

South Central Technical College operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that the college safeguarded its assets and properly recorded its financial activities on the MnSCU and the state's accounting systems. The college complied with applicable legal provisions regarding local bank accounts and maintained an appropriate operating relationship with its foundations.

Although some incompatible system access existed, the college had designed controls to sufficiently mitigate the risks. The college ensured that two employees who had access to both accounts receivable and cashing functions in MnSCU's accounting system did not have access to cash. In addition, a college administrator reviewed all transactions processed by two other employees who had access to both payroll and human resource functions within MnSCU's payroll/personnel system.

Chapter 3. Revenues

Chapter Conclusions

Generally, South Central Technical College's internal controls provided reasonable assurance that the college safeguarded its revenue collections and accurately reported revenue in the accounting records, in compliance with applicable legal provisions and management's authorization. However, the college had some internal control weaknesses in certain revenue areas:

- *the college did not have adequate controls over some resale revenues;*
- *the college did not allocate indirect costs to the bookstore and food service operations or reflect the benefit of services the bookstores provided to the college's general operations; and*
- *the college did not promptly collect food service receivables from the day care operation.*

For the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning tuition, fees, and other revenues.

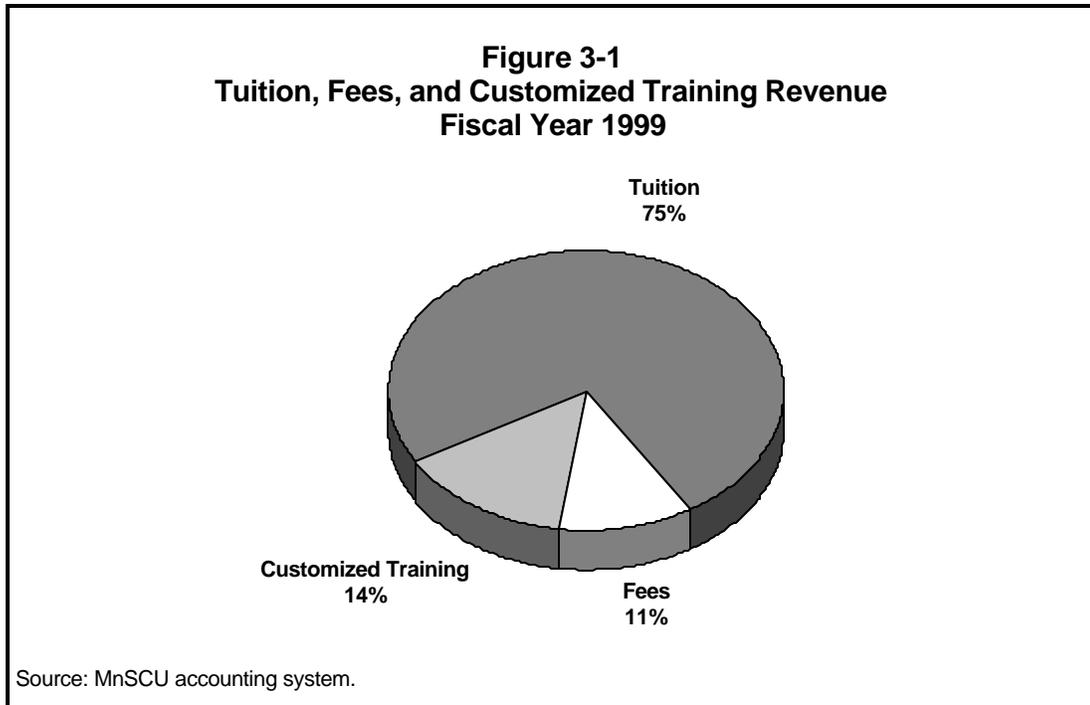
Credit-Based Tuition and Fee Revenue

In fiscal year 1999, 86 percent of the college's tuition and fee receipts was from credit-based courses. The college used the Integrated Student Record System to record credit-based registrations, billings, and collections. The student record system calculated the total tuition due based on class registrations. Students paid their tuition and fees at the bookstores, which served as each campus' cashier. The tuition rate for fiscal year 1999 was \$66.25 per credit.

Customized Training

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education and contract training courses. The college offered continuing education courses to the public, and developed contract training courses to meet the educational needs of a specific business or industry. The college used the student record system to register students in customized training courses. Customized training revenue accounted for 14 percent of the college's tuition and fee revenue in fiscal year 1999. Figure 3-1 shows the breakdown of the revenue by type.

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Bookstore and Food Service Operations

South Central Technical College had enterprise operations, including bookstores and food service. The bookstores at both the Mankato and Faribault campuses sold textbooks, school supplies, clothing, gifts, and other items. The college provided food service only at the Mankato campus. Although the college did not allocate indirect costs to these enterprise operations, their activities included certain administration services, such as tuition collection, that provided benefit to the college's general operations. In Finding 4, we recommend that the college quantify the allocable costs and the benefit to the college's general operations to determine the equity of the offset.

Table 3-1 shows the bookstore and food service's income statements for the year ended June 30, 1999.

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Table 3-1
Bookstore and Food Service Income Statements
Fiscal Year 1999

	<u>Bookstore</u>	<u>Cafeteria</u>
Sales and Services	\$755,725	\$211,357
Cost of Goods Sold	<u>(562,084)</u>	<u>(91,783)</u>
Gross Margin	<u>\$193,641</u>	<u>\$119,574</u>
Operating Expenses		
Salaries	\$136,710	\$117,223
Purchased Services	20,766	4,439
Supplies	10,772	8,966
Depreciation	624	6,047
Other	<u>1,104</u>	<u>515</u>
Total Operating Expenses	<u>\$169,976</u>	<u>\$137,191</u>
Income (loss) from Operations	<u>\$ 23,665</u>	<u>\$(17,617)</u>

Note: Although the college did not allocate indirect costs to these enterprise operations, their activities included certain administrative services, such as tuition collection, that provided benefit to the college's general operations. In Finding 4, we recommend that the college quantify the allocable costs and the benefit to the college's general operations to determine the equity of the offset.

Source: South Central Technical College prepared financial statements (unaudited).

Resale Activities

The college, through its technical education programs, operated resale activities. These areas included auto body, auto mechanics, agricultural mechanics, and refrigeration. Students and instructors performed the work for students, staff, and the public. As noted in Finding 2, the college needs to improve the procedures over collecting and accounting for resale activities.

Audit Objectives and Methodology

The primary objective of our review of tuition, fees, customized training, bookstore, food service, and resale revenue were to answer the following questions:

- Did the college's internal controls provide reasonable assurance that the college safeguarded revenue collections and accurately reported revenue in the accounting records, in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning revenue?

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To meet this objective, we interviewed college employees to gain an understanding of controls over tuition, fees, customized training, bookstore, food service, and resale receipts. We reviewed student registration and account receivable records, bookstore and food service documentation, and MnSCU accounting records to determine if South Central Technical College charged students appropriate rates, collected and deposited earned revenue, and properly recorded receipt transactions in MnSCU accounting. We also reviewed bank deposit documentation to determine if the college complied with applicable legal provisions.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college safeguarded revenue collections and accurately reported revenue in the accounting records, in compliance with applicable legal provisions and management's authorization. However, the college had some internal control weaknesses in certain revenue areas. The college did not have adequate controls over some resale revenues, did not allocate indirect costs to the bookstore and food service operations or reflect the benefit of services the bookstore provided to the college's general operations, and did not promptly collect outstanding food service receivables from the day care operation.

For the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning tuition, fees, and other revenues.

1. The college did not adequately control revenue from some resale activities.

The Automotive Service program and the Auto Body and Collision Technology program did not separate incompatible invoice and receipt collection duties in its resale activities. A program instructor prepared a prenumbered invoice for each customer, collected the receipt, and then marked the invoice as paid. One person should not both prepare the invoice and accept the payment. Ideally, the receipt should be collected by the college's cashier and not at the program site.

Also, since the program instructors did not provide the business office with an accounting of all the invoices, the business office could not reconcile the resale revenue earned to the amount deposited. This reconciliation would ensure that the college recorded and deposited all revenue earned by these resale activities.

The college did not have procedures for the collection and deposit of these and other resale revenues. As a result, program instructors may not adequately safeguard receipts against loss or theft. The procedures should ensure that the college separates incompatible functions, performs reconciliations of receipts to invoices, and safeguards assets prior to deposit.

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Recommendations

- *The Automotive Service program and the Auto Body and Collision Technology program instructors should require that customers pay their invoices to the college's cashier.*
- *The business office should reconcile the paid invoices to the receipts deposited and determine the status of any missing prenumbered receipts.*
- *The college should develop procedures for proper collection and control over resale revenue.*

2. South Central did not promptly collect receivables from the college's day care center.

South Central allowed the amount receivable from the day care center for food service to accumulate to over \$12,000. The college permitted the day care center to obtain food service on credit for its children and staff. The college's contract with the day care center did not specify when the center would pay for food received. As of June 2000, the day care center was ten months behind in its payments for food charges. Monthly charges averaged about \$1,200. The college should require the day care center to make payments on a regular basis, at least quarterly when it receives its federal food reimbursements. Day care centers typically have tight cash flows, increasing the risk that charges may not be paid.

The day care center is a non-profit corporation that provides day care services to children of South Central students, faculty, and the public.

Recommendations

- *The college should request payment from the day care center for past-due food service charges.*
- *The college should amend the contract with the day care center to specify when the center is to pay for food service charges.*

3. The college did not allocate indirect costs to the bookstore and food service operations or reflect the benefit of services the bookstore provided to the college's general operations.

South Central Technical College's financial statements for the bookstore and food service operations did not include certain indirect costs, such as rent and utilities. The college also did not credit the bookstores with the value of cashiering and other administrative services they provided that benefited the college's general operations. The college believed that the unallocated costs offset the value of the administrative services the bookstores provided.

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However, the college had not quantified the allocable costs or the value of the administrative services to determine whether their belief was valid. For proper financial reporting and to monitor bookstore and food service activities, the bookstores and food service should account for operations in a manner similar to a private business.

Recommendation

- *The college should quantify the allocable indirect costs and the benefit to the college's general operations to determine the equity of the offset.*

Chapter 4. Payroll

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college accurately recorded employee payroll transactions in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, the college complied, in all material respects, with significant statutory provisions and bargaining unit agreements for employee payroll.

Payroll is South Central's largest expenditure. The college had separate human resource and payroll offices to process personnel and payroll transactions. Human resource staff input personnel transactions into the State Colleges and Universities Personnel/Payroll System (SCUPPS) while payroll staff ensured the accuracy of employee data in the state's payroll system (SEMA4) and payroll expenditures in the MnSCU accounting system. The college incurred employee payroll expenditures of \$14.1 million for fiscal year 1999.

Audit Objectives and Methodology

We focused our review of payroll expenditures on specific audit objectives related to the following questions:

- Did South Central's internal controls provide reasonable assurance that the college accurately recorded employee payroll expenditures in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did South Central comply with significant finance-related legal provisions concerning payroll?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel processes. We interviewed college employees to gain an understanding of the personnel and payroll accounting systems used by the college and observed the application of procedures used to process and reconcile payroll transactions. We reviewed the security level clearances for payroll and human resources personnel. We also performed various detail tests of employee payroll transactions to support our conclusions.

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Employee Payroll Processing

As of April 2000, the college's workforce at the Mankato and Faribault campuses totaled 212 and 57 employees, respectively. The following organizations represented the college's employees:

- United Technical College Educators (UTCE)
- The Excluded Administrators Plan
- The American Federation of State, County, and Municipal Employees (AFSCME)
- The Middle Management Association (MMA)
- The Minnesota Association of Professional Employees (MAPE)

The college used the state's payroll/personnel system (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. The college used the SCUPPS system to monitor and evaluate compensation paid and leave accrued. It also used it to identify the different types of classification assignment codes pertaining to faculty appointments. SEMA4 contained pay rate information and calculated the employee payroll amount.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college accurately recorded employee payroll transactions in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, the college complied, in all material respects, with significant statutory provisions and bargaining unit agreements for employee payroll.

Chapter 5. Administrative and Resale Expenditures

Chapter Conclusions

Generally, South Central Technical College's internal controls provided reasonable assurance that the college accurately reported administrative and resale expenditures in the accounting records, in compliance with applicable legal provisions and management's authorization. However, some employees inadequately documented travel expenses and inappropriately incurred credit card finance charges. In addition, the college paid membership dues to a private club.

South Central Technical College staff and faculty incur various administrative expenditures to facilitate the educational mission of the college. Our audit focused on expenditures for purchased services, consultant/contract services, travel, equipment, supplies, and supplies for resale. Expenditures for these areas totaled approximately \$6.9 million in fiscal year 1999.

To purchase goods or services, college departments submitted authorized purchase requisitions to the purchasing department. The purchasing department verified that funds were available in the appropriate cost center, encumbered the funds, and created and sent purchase orders to the vendors. The business office received vendor's invoices, verified that the college had received the goods or services, matched the invoice to the purchase requisition and purchase order, and processed the payments on the MnSCU accounting system.

Audit Objectives and Methodology

The primary objectives of our review of administrative and resale expenditures were to answer the following questions:

- Did South Central Technical College design and implement internal controls to provide reasonable assurance that the college accurately reported administrative and resale expenditures in the accounting records, in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with applicable legal provisions concerning supplies and equipment expenditures?

To meet these objectives, we interviewed college employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded the expenditures, and to

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determine whether the college complied with applicable legal provisions. Finally, we reviewed the college's process to record and track its fixed assets.

Conclusions

Generally, South Central's internal controls provided reasonable assurance that the college accurately reported administrative and resale expenditures in the accounting records, in compliance with applicable legal provisions and management's authorization. However, some employees inadequately documented travel expense reimbursements and inappropriately incurred credit card finance charges. Also, the college paid membership dues to a private club.

4. Some employees did not adequately document travel expenses and inappropriately incurred credit card finance charges. Also, the college paid membership dues to a private club.

Some administrative staff did not adequately support travel and other miscellaneous expenses they charged to college credit cards. Although MnSCU policy requires that employees document all travel expenses on the state's Employee Expense form, the business office paid the credit card charges based only on receipts for the purchases. The state's Employee Expense form would have provided an explanation of the business nature of the expense and allowed for determination of the taxable nature of meals. In addition, the college incurred finance charges on the credit card account because it did not always timely pay the bill. From December 1999 through April 2000, the college paid \$319 in finance charges and a \$25 late fee.

Also, other employees did not use the Employee Expense Report to adequately document mileage and meal reimbursements. Instead, the employees used a form developed by the college, the Monthly Report of Activities and Mileage. These forms did not document the purpose for incurring the expenditures and did not record the travel times and destinations to allow for verification of the mileage calculations and eligibility for meal reimbursements.

Finally, the college paid membership dues to a private club. The membership began prior to the college merging into the MnSCU system. Board policy prohibits private club memberships. The membership cost \$40 per month, plus a minimum usage charge of up to \$50 if the college did not meet certain membership terms. The college paid the club a total of \$875 during fiscal year 1999.

Recommendations

- *All employees should use the state's Employee Expense Report to document travel expenses in accordance with Board Policy.*
- *The college should pay the credit card invoice by the due date to avoid incurring finance charges and late fees.*
- *The college should discontinue its private club membership.*

Chapter 6. Student Financial Aid

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college properly recorded student financial aid transactions in the accounting system and administered financial aid in accordance with applicable federal regulations. South Central Technical College's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, South Central Technical College complied with applicable federal requirements over receiving federal funds.

South Central Technical College participated in several federal student financial aid programs administered by the U.S. Department of Education. Table 6-1 summarizes the college's program expenditures for fiscal year 2000 through December 31, 1999.

**Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 2000**

<u>CFDA Number</u>	<u>Program</u>	<u>Total Expenditures</u>
84.032	Federal Family Loan (FFEL)	\$1,051,663
84.063	Federal PELL Grant	527,987
84.007	Federal Supplemental Educational Opportunity Grant (FSEOG)	38,689
84.033	Federal Work-Study (FWS)	113,584

Note: SEOG and Federal Work-Study expenditures include both the federal and state share.
Source: MnSCU accounting system.

South Central Technical College used an automated financial aid system called SARA to determine a student's financial need and identify the financial aid options available to that student. SARA automatically allocated PELL grants, FSEOG, and Minnesota State grants to eligible students. After the system determined these awards, the college determined the student's eligibility for FFEL loans and college work-study. The college posted financial aid award information to the student registration system, adjusting awards as needed based upon a student's actual enrollment status after the drop/add period for the term. The student registration system applied student financial aid against tuition, and the Business Office generated checks to the students for any aid in excess of the tuition and fees owed the college.

Following are descriptions of the material federal and state financial aid programs:

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- Under the Federal Family Education Loan Program, private lenders provided the loan principal, and the federal government guaranteed the loan in case of default or cancellation. For subsidized Stafford loans, the federal government paid interest to the lender while the student was in school and during certain deferment periods. For unsubsidized Stafford loans, the student paid all interest that accrued on the loan.
- The Federal Pell Grant was generally the first source of financial assistance to an eligible student. SARA determined the Federal PELL Grant awards using the cost of attendance and the expected family contribution. The U.S. Department of Education provided Federal PELL Grant funds to each campus based on the eligible students enrolled.
- The college awarded Federal Supplemental Educational Opportunity Grants to exceptionally needy undergraduate students. SARA determined a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education funded 75 percent of the Federal Supplemental Educational Opportunity Grants, and the college funded the remainder.
- The Federal Work-Study program provided part-time employment for students who continued to have financial need after receiving all other available grants. Like FSEOG, the U.S. Department of Education funded 75 percent of the Federal Work-Study program, and the college funded the remainder.
- The college also participated in the Minnesota State Grant program, funded through the Minnesota Higher Education Services Office. The award amount varied based on the credits the student earned. In fiscal year 1999, the college disbursed Minnesota State Grants totaling \$423,996.

Audit Objectives and Methodology

Our primary objectives were to answer the following questions:

- Did the college's internal controls provide reasonable assurance that the college properly recorded student financial aid transactions in the accounting system and administered financial aid in accordance with applicable federal regulations?
- Did the college's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?
- Did the college comply with applicable federal requirements over receiving federal funds?

To answer these questions, we evaluated and tested controls over compliance for determining student eligibility, packaging and awarding, and disbursing state and federal financial aid funds. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

South Central Technical College

Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college properly recorded student financial aid transactions in the accounting system and administered financial aid in accordance with applicable federal regulations. South Central Technical College's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, South Central Technical College complied with applicable federal requirements over receiving federal funds.

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**Status of Prior Audit Issues
As of May 5, 2000**

Most Recent Audits

COLLEGE AUDIT

Legislative Audit Report 98-59, issued in October 1998, covered the period July 1, 1995, through June 30, 1997. As of May 2000, South Central Technical College had implemented all of the nine findings included in the report.

STATEWIDE AUDITS

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to South Central Technical College.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to South Central Technical College.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

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SOUTH CENTRAL
TECHNICAL COLLEGE

North Mankato/Mankato Campus
1920 Lee Boulevard
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August 11, 2000

Mr. James R. Nobles
Legislative Auditor
100 Centennial Building
658 Cedar St
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report for South Central Technical College for the period of July 1, 1997 through June 30, 1999. Our formal written response to the audit findings is attached.

I wish to thank Cecile Ferkul for her leadership, along with Pay Ryan-Auditor in Charge, John Hakes and Connie Stein for the professional and thorough manner in which they conducted the audit. They treated our staff with respect and courtesy. We appreciate their recommendations for improving the SCTC finance process.

Please contact me if you have any questions regarding our response.

Sincerely,

/s/ Keith Stover

Keith Stover
President – South Central Technical College

Enc.

MnSCU

Minnesota State Colleges & Universities
An Equal Opportunity Employer/Educator

SOUTH CENTRAL TECHNICAL COLLEGE
Response to audit finding

REVENUES

1. The college did not adequately control revenue from some resale activities.

Recommendations

- ❖ *The Automotive Service program and the Auto Body and Collision Technology program instructors should require that customers pay their invoices to the college's cashier.*
- ❖ *The business office should reconcile the paid invoices to the receipts deposited and determine the status of any missing pre-numbered receipts.*
- ❖ *The college should develop procedures for proper collection and control over resale revenue.*

South Central Technical College will remove all cashiering responsibilities from the Automotive Service and Auto Body and Collision Technology staff. Resale customers will get pre-numbered invoices from the shops and will pay these invoices at the bookstore. The customer will then show the paid receipt to the shop staff to get their keys. This practice will resemble segregation of cashier and service duties similar to current industry practices.

Responsible person(s): Richard Straka-VP, Finance & Operations
Dr. Larry Lundblad-VP, Academic Affairs
Effective Date: August 21, 2000

2. South Central did not promptly collect receivables from the college's day care center.

Recommendations

- ❖ *The college should request payment from the day care center for past-due food service charges.*
- ❖ *The college should amend the contract with the day care center to specify when the center is to pay for food service charges.*

South Central Technical College has negotiated a short-term payment plan to resolve balances greater than three months. SCTC will monitor future collections to ensure promptness. If collections are not timely, SCTC will review status of current daycare provider and may issue an RFP process for a new vendor.

Responsible person: Richard Straka-VP, Finance & Operations
Effective Date: August 11, 2000

- 3. The college did not allocate indirect costs to the bookstore and food service operations or reflect the benefit of services the bookstore provided to the college's general operations.**

Recommendation

- ❖ *The college should quantify the allocable indirect costs and the benefit to the college's general operations to determine the equity of the offset.*

SCTC will document and allocate indirect costs to the college bookstore and food service operations. Any benefits these operations provide to the general fund will also be documented.

Responsible person: Richard Straka-VP, Finance & Operations
Effective Date: September 1, 2000

ADMINISTRATIVE AND RESALE EXPENDITURES

- 4. Some employees did not adequately document travel expenses and inappropriately incurred credit card finance charges. Also, the club paid membership dues to a private club.**

Recommendations

- ❖ *All employees should use the state's Employee Expense Report to document travel expenses in accordance with Board Policy.*
- ❖ *The college should pay the credit card invoice by the due date to avoid incurring finance charges and late fees.*
- ❖ *The college should discontinue its private club membership.*

4A. All employees must use the official State Employee Expense Report to document travel expenses in accordance with Board Policy. South Central Technical College discontinued the use of a local monthly report of activities and mileage form effective August 1, 2000.

4B. The college credit cards will no longer be used for charging purchases or personal reimbursable expenses. All credit card receipts will be processed bi-weekly to ensure prompt payment.

4C. SCTC has discontinued the private club membership effective May 31, 2000.

Responsible person: Richard J. Straka, VP-Finance & Operations
Effective date: August 11, 2000