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

Financial-Related Audit

# Alexandria Technical College

## July 1, 1996, through December 31, 1999

**SEPTEMBER 15, 2000** **00-43**

# 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.

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- 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.

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**OFFICE OF THE LEGISLATIVE AUDITOR**

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Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Larry Shellito, President
Alexandria Technical College

We have audited selected areas of the Alexandria Technical College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included tuition and fee revenue, employee payroll, and purchased goods and services. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. However, as explained in Chapter 3, our audit scope for tuition and fee revenue from July 1, 1996, through June 30, 1999, was limited due to a lack of documentation and poor audit trails. The objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government 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 the Alexandria 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 Alexandria 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 September 15, 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 26, 2000

Report Signed On: September 8, 2000

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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 |
| Renee Redmer, LPA | Audit Manager |
| Susan Rumpca, CPA | Auditor-in-Charge |
| Laura Peterson, CPA | Auditor |
| Susan Mady | Auditor |

## Exit Conference

We discussed the findings and recommendations with the following representatives of Alexandria Technical College and the MnSCU system office at the exit conference held on August 23, 2000:

| | |
|---|---|
| MnSCU System Office: | |
| Laura King | Vice Chancellor, Chief Financial Officer |
| Rosalie Greeman | Associate Vice Chancellor, Financial Reporting |
| Beth Hammer-Buse | Deputy Director, Internal Auditing |
| Tamera Billing | Coordinator, Internal Auditing |
| Deb Winter | Director of Campus Accounting |
| Andrew Boss | Chair, MnSCU Audit Committee |
| Alexandria Technical College: | |
| Dr. Larry Shellito | President |
| Jan Mahoney | Chief Financial Officer |

## Report Summary

Alexandria Technical College made improvements since the last audit in certain financial management areas such as local bank account reconciliations and MnSCU to MAPS reconciliations. The 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 it maintained an appropriate relationship with its foundation and complied with applicable legal provisions regarding local bank accounts. However, our audit scope for tuition and fee revenue from July 1, 1996, through June 30, 1999, was limited due to a lack of documentation and poor audit trails. We also identified some key internal control and other weaknesses.

Key Findings:

- The college did not adequately monitor computer security clearances. (Finding 1, page 7)
- The college did not retain documentation necessary to verify certain financial activity. (Finding 2, page 8)
- The college did not perform key reconciliations for certain accounts. (Finding 3, page 8)
- The college did not adequately safeguard cash. (Finding 4, page 9)
- The college did not adequately separate duties related to revenue. (Finding 6, page 14)
- The college did not adequately control its customized training receipts. (Finding 7, page 14)
- The college did not obtain signed compensation agreements with customized training instructors. (Finding 8, page 18)

Agency Response:

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

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# Chapter 1. Introduction

Alexandria Technical College is one of 35 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system, which began operations on July 1, 1995. Since it was founded in 1961, Alexandria Technical College has grown from three programs with 23 students to 45 programs with approximately 2,000 students. The college is accredited at the associate degree level by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Dr. Larry Shellito is the college president.

The college offers occupational and associate degree programs within a variety of disciplines. The largest programs include law enforcement, machine tool technology, diesel mechanics, and communication art and design. The college offers unique programs such as aquaculture, automotive diagnostic technician, and geographic information systems. In addition, the college offers customized training courses to the general public and designs courses to meet the specific needs of industry.

The college finances its operations primarily from state appropriations, student tuition, and fees. The MnSCU system office allocates a portion of the system-wide appropriation to its individual institutions based on a formula. Alexandria Technical College, like other MnSCU institutions, retains tuition and other dedicated revenues to finance its operations. Table 1-1 provides a summary of the college's financial activity for the fiscal year ended June 30, 1999.

**Table 1-1**
**Alexandria Technical College Revenues, Expenditures/Expenses and Changes in Fund Balance**
**Fiscal Year Ended June 30, 1999**

| Revenues: | General Fund | Special Revenue Fund | Enterprise Fund |
|---|---|---|---|
| State Appropriation | $10,127,781 | $ 0 | $ 0 |
| Tuition and Fees | 4,863,076 | 235,666 | 40 |
| Sales and Services (2) | 480,310 | 75,453 | 272,603 |
| Federal Grants | 0 | 2,013,190 | 0 |
| State Grants | 1,566,290 | 0 | 0 |
| Private Grants | 0 | 11,391 | 0 |
| Other Income | 93,217 | 4,989 | 2,616 |
| Total Revenue | $17,130,674 | $2,340,689 | $275,259 |
| **Expenditures/Expenses:** | | | |
| Salaries | $ 9,864,458 | $ 466,410 | $164,230 |
| Purchased Services | 2,104,031 | 102,740 | 32,807 |
| Utilities | 287,069 | 1,430 | 0 |
| Contract/Consultants | 174,020 | 457 | 1,069 |
| Supplies | 2,378,589 | 139,679 | 21,087 |
| Financial Aid | 1,311,240 | 1,556,542 | 0 |
| Capital Expenditures | 1,603,961 | 3,352 | 0 |
| Debt Service-Interest | 62,480 | 0 | 0 |
| Other Expenses | (158,547) | 91,415 | 22,937 |
| Total Expenditures/Expenses | $17,627,301 | $2,362,025 | $242,130 |
| **Transfers:** | | | |
| Transfers In | $ 43,746 | $ 0 | $ 0 |
| Transfers Out | (32,062) | 0 | 0 |
| Net Transfers | $ 11,684 | $ 0 | $ 0 |
| **Change in Fund Balance** | $ (484,943) | $ (21,336) | $ 33,129 |
| **Beginning Fund Balance** | 3,264,237 | 127,892 | (7,444) (5) |
| **Ending Fund Balance** (3) | $ 2,779,294 | $ 106,556 | $ 25,685 |

Note 1: This table is prepared on the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. 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 is 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.

Note 2: Enterprise Fund sales and services are net of cost of goods sold, as follows:

| | |
|---|---|
| Sales and Services – Gross | $637,324 |
| Cost of Goods Sold | (364,721) |
| Sales and Services – Net | $272,603 |

Note 3: Compensated absence liabilities at June 30, 1999, were estimated at $1,278,688, $53,253, and $11,162 for the General Fund, Special Revenue Fund, and Enterprise Fund, respectively. These liabilities represent the amount due college employees for accrued vacation, sick, and compensatory leave at June 30.

Note 4: The ending General Fund balance, excluding state financial aid, includes $370,000 restricted for future severance/retirement obligations, $840,000 restricted for remodeling encumbrances, $40,000 restricted for prior year encumbrances, $600,000 carried forward to the fiscal year 2000 budget, and $710,000 undesignated balance.

Note 5: The negative fund balance resulted from the food service purchasing goodwill from a student organization under a long-term agreement.

Source: Prepared by MnSCU accounting staff as adjusted by the auditors.

# Chapter 2. Financial Management

### *Chapter Conclusions*

***Alexandria Technical College made improvements since the last audit in certain financial management areas such as local bank account reconciliations and MnSCU to MAPS reconciliations. The 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 it maintained an appropriate relationship with its foundation and complied with applicable legal provisions regarding local bank accounts. However, we identified the following key weaknesses in financial management areas:***

- ***The college did not adequately monitor computer security clearances.***
- ***The college did not retain documentation necessary to verify certain financial activity.***
- ***The college did not perform key reconciliations for certain accounts.***
- ***The college did not adequately safeguard cash.***
- ***The college did not measure and report all costs for enterprise operations.***

Alexandria Technical College uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury for certain activities. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. Alexandria Technical College administers certain funds, such as financial aid, agency accounts, and enterprise activities in local bank accounts. A local bank account also serves as the college's state depository and link to the state treasury.

## Audit Objectives and Methodology

Our review of Alexandria Technical College's financial management focused on 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 it properly recorded financial activities on the MnSCU and MAPS accounting systems?

- Did the college's internal controls provide reasonable assurance that it maintained an appropriate relationship with its foundation?

- For the items tested, did the college comply with applicable legal provisions regarding local bank accounts?

To answer these questions, we interviewed college employees to gain an understanding of the college's use of the MnSCU accounting system for the programs in our audit scope. We also gained an understanding of management controls, such as budget monitoring and account reconciliations, 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 also reviewed local bank activity to determine compliance governing collateral sufficiency. We reviewed the college's relationship with its foundation. Finally, we reviewed security privileges to determine if the college adequately limited access to its computerized business systems.

## Budgetary Controls

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to the colleges and universities based on an allocation formula. In addition, Alexandria Technical College, like other MnSCU institutions, retains the tuition and other receipts it collects to arrive at its total authorized spending level. After Alexandria Technical College determines its authorized spending level, it allocates funding by division. Division leaders then determine individual program allocations.

The college generates financial reports each month for program managers to review. In addition, the college prepares fund balance projections to estimate and monitor financial status. The college's finance team meets twice each month to review financial reports and advise the financial officer.

## Financial Operations

The college performed a bank reconciliation on its local bank accounts each month during the audit period. It also performed monthly reconciliations between MnSCU accounting and MAPS for most accounts beginning in February 2000. Prior to this, the college completed quarterly reconciliations of these accounts.

Alexandria Technical College is affiliated with the Alexandria Technical College Foundation, a non-profit organization. The foundation has its own board of directors that meets periodically. The college provided administrative support to the foundation during the audit period. The foundation prepares financial statements annually that are subject to an audit by an independent CPA firm.

## Alexandria Technical College

## Conclusions

Alexandria Technical College made improvements since the last audit in certain financial management areas such as local bank account reconciliations and MnSCU to MAPS reconciliations. The 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 it maintained an appropriate relationship with its foundation and complied with applicable legal provisions regarding local bank accounts. However, we identified the following key weaknesses in financial management areas:

- The college did not adequately monitor computer security clearances.
- The college did not retain documentation necessary to verify certain financial activity.
- The college did not perform key reconciliations for certain accounts.
- The college did not adequately safeguard cash.
- The college did not measure and report all costs for enterprise operations.

### 1. Alexandria Technical College did not adequately monitor computer security clearances.

Alexandria Technical College did not adequately monitor computer security clearances in the MnSCU accounting system, the MnSCU personnel and payroll system (SCUPPS), and the State's Employee Management System (SEMA4). As a result, we found the following instances where the college did not adequately restrict computer access.

- Four college employees had incompatible security profiles between SCUPPS and SEMA4. These employees had access to update both personnel and payroll data in the two payroll systems. In addition, college staff could not identify three SCUPPS users who had update capabilities and could not determine if their access was necessary.

- Four college employees had incompatible security profiles in MnSCU accounting. These employees had update access to the cashiering, accounts receivable, and general accounting functions. These users had access to cash and had the potential to inappropriately modify charges and adjust accounts receivable.

- One college employee had access to the registration function in MnSCU accounting even though that employee no longer worked in the registration area. Another employee had access to update equipment inventory but this was not an assigned job duty. Three college employees had access to the bank reconciliation functions even though these employees were not responsible for the reconciliation. The college increases the risk of inappropriate transactions by giving employees access to functions unnecessary for their job duties.

- Thirteen MnSCU system office personnel had access to update various functions within MnSCU accounting, including one employee who could update and adjust revenue transactions. In addition, nine system office employees had access to update the college's SCUPPS data. Former MnSCU system office personnel continued to have view access to the college's data after leaving employment. We question whether these users needed access to the college's data.

The risk of errors and unauthorized transactions increases when the college does not monitor the security profiles for all users and allows users access to incompatible security groups.

*Recommendation*

- *The college should monitor security clearances and limit computer system access to ensure an adequate separation of duties and to prevent unauthorized access to data. The college should grant users access to only the screens needed for their jobs and should work with the system office to determine employee access needs. If the college is unable to eliminate incompatible access, it should develop detection controls that would provide an independent periodic review of employees' work.*

**2. Alexandria Technical College did not retain documentation necessary to verify certain financial activity.**

Alexandria Technical College did not retain documentation needed to verify tuition and fee activities. A business office employee disposed of most of the fiscal year 1997 and 1998 student account receivable reports from TEAMS, the college's previous student information system. Water damaged the remaining documents. These reports were necessary to verify whether the college deposited all tuition receipts in the bank, timely deposited the receipts, and correctly recorded the tuition and fee revenue in the MnSCU accounting system. The missing documentation hindered our review of the tuition and fee revenue as discussed in Chapter 3.

We found the college did not have a current record retention policy. In 1996, the college received a record retention schedule from the MnSCU system office related to personnel and payroll records. However, the college's record retention policies for administrative areas, instructional programs, and student records dated back to November 1985. To ensure that the college appropriately retains records, the college should periodically update its record retention policies and train staff on those policies.

*Recommendation*

- *The college should update its record retention policies, train staff on the policies, and retain documentation based on the policy.*

**3. PRIOR FINDING PARTIALLY RESOLVED: Alexandria Technical College did not perform key reconciliations for certain accounts.**

Alexandria Technical College did not perform two key reconciliations for certain accounts. First, the college did not complete the MnSCU to MAPS reconciliations for the General Project

Fund and the Building Fund (Funds 110 and 500). These funds had about $600,000 in appropriation transfers during the audit period. The college also attempted, but did not successfully complete, the MnSCU to MAPS reconciliation for the clearing account. The college did not make required adjusting transactions after reimbursing the state treasury for certain payroll expenditures. This may contribute to the college's difficulty in reconciling the clearing account. In addition, the college had not reconciled the imprest cash bank account to MnSCU accounting since May 1999. This account is authorized at $20,000. Periodic reconciliations between MnSCU and MAPS and to the recorded bank transactions ensure the accuracy of the transactions posted to these systems and detect posting errors in a timely manner.

*Recommendation*

- *The college should ensure the accuracy of its accounting records by reconciling the MnSCU accounting system to MAPS and the bank account activity to the MnSCU accounting system.*

**4. PRIOR FINDING PARTIALLY RESOLVED: Alexandria Technical College did not adequately safeguard cash.**

Alexandria Technical College did not adequately safeguard cash in several ways. First, business office employees placed bank deposits and cash drawers on desks at the end of the business day instead of storing them in the business office safe until the courier arrived. The college did not restrict access to the business office either, as it had three entrances into the office. Second, we found the clearing account checkbook stored on an employee's desk rather than in a secured place. Finally, the college collected receipts in multiple locations on campus. The college increased the risk of lost or stolen receipts by not adequately safeguarding cash and by collecting receipts in multiple locations.

*Recommendation*

- *The college should adequately safeguard cash by storing receipts in the safe, storing financial documents in a secure place, and collecting all receipts in the business office.*

**5. Alexandria Technical College did not measure and report all costs for enterprise operations.**

Alexandria Technical College did not reflect all operating costs for its enterprise operations such as the DECA store and food service. The college did not allocate rent, utilities, or indirect costs to the enterprise operations. These activities are auxiliary enterprises and should account for operations in a manner similar to private business. For financial reporting purposes, enterprise funds should measure the total cost of operations. This allows college management to make informed pricing and business decisions.

*Recommendation*

- *Alexandria Technical College should identify and document all costs of its enterprise operations for financial reporting purposes and management decisions on funding practices.*

# Chapter 3. Tuition and Fee Revenue

## *Chapter Conclusions*

***Alexandria Technical College's internal controls provided reasonable assurance that fiscal year 2000 tuition and fee collections through December 31, 1999, excluding customized training, were accurately reported in the accounting records and in compliance with applicable finance-related legal provisions and management's authorization.***

***For fiscal years 1997 through 1999, the college deposited the amount of tuition and fee receipts recorded on MnSCU accounting. However, because of missing and inadequate documentation, we could not verify that the college collected and deposited all tuition revenue earned, accurately reported revenue in the accounting system, and complied with applicable finance-related legal provisions and management's authorization. In addition, we found the following control weaknesses over revenue collections:***

- ***The college did not adequately separate duties related to revenue.***
- ***The college did not adequately control its customized training receipts.***

***Finally, as explained in Chapter 2, Findings 1 and 4, the college did not adequately monitor computer security clearances or safeguard cash receipts.***

Alexandria Technical College offers 45 occupational and associate degree programs and collects tuition and fees from students enrolled in these programs. The college collected approximately $5.1 million in tuition and fees during fiscal year 1999.

At the time of the MnSCU merger in July 1995, the college used its own student information systems. These systems recorded and maintained student data, assessed tuition, and monitored unpaid balances. The systems supported various activities such as admissions, registration, and accounting. Subsequently, MnSCU developed one information system to replace these former systems. The new system, the Integrated Student Record System (ISRS), contains various student data and registration modules that share common data through various interfaces. Alexandria Technical College started using the new ISRS system and its components during the fall term of 1998.

The college operated on a quarter system in fiscal years 1997 and 1998. The college changed to a semester system in fiscal year 1999. The college charged various tuition rates depending upon the student's residency status. Table 3-1 shows the college's tuition rates.

**Table 3-1**
**Tuition Rates**
**Fiscal Years 1999 and 2000**

| | 1999 | 2000 |
|---|---|---|
| Resident Tuition | $ 67.50 | $ 69.50 |
| Non-Resident Tuition | 135.00 | 139.00 |
| MSEP Agreement (1) | 101.25 | 104.25 |
| Reciprocity (2) | 67.50 | 69.50 |
| Senior Citizen Tuition | 15.00 | 15.00 |

(1) The MnSCU system office established a tuition agreement with MSEP (Midwestern Student Exchange Program). Students participating in MSEP from Michigan, Missouri, Kansas, and Nebraska pay tuition at 150 percent of the resident tuition rate.

(2) The college charges tuition rates equal to Minnesota resident tuition rates to reciprocity participants from Wisconsin, North Dakota, South Dakota, and Manitoba.

(3) The Legislature approved tuition subsidies for five management program areas including Farm Business Management, Small Business Management, Computerized Small Business, Specialty Crops Management, and Lamb and Wool Management.

Source: MnSCU Budget Unit Web Site.

## Customized Training

In addition to credit-based courses, the college offered customized training courses. The customized training department offered courses to the general public and designed courses to meet the specific needs of businesses. For fiscal year 1999, the college recorded nearly $700,000 in its accounting system from customized training course fees. The college established fees for courses offered to the general public and negotiated rates with contract businesses. The customized training department offered the following training opportunities:

- Supervisory Management
- Health Care
- Technical/Computer Training
- Organization and Human Development
- Quality and Productivity Training
- Real Estate
- Fire Fighter Training
- ISO 9000
- Industrial Safety
- Geographic Information Systems
- Farm Business Management
- Insurance

## Audit Objectives and Methodology

Our audit of tuition and fee revenue focused on the following questions:

- Did the college's internal controls provide reasonable assurance that tuition and fee revenues were accurately reported in the accounting records and 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 tuition and fees?

To answer these questions, we obtained an understanding of the internal control structure over the tuition and fee processes. We interviewed college employees, analyzed tuition and fee transactions to identify unusual trends, and reviewed the appropriateness of computer security clearances. We also reviewed source documents to verify the propriety and authorization of tuition and fee revenue.

## Scope Limitation

The college did not retain certain documentation related to tuition and fee revenue. A business office employee disposed of most of the fiscal year 1997 and 1998 student account receivable reports from TEAMS, the college's previous student information system. Water damaged the remaining documents. The missing documentation hindered our review of tuition and fee revenue. Finally, the college had a poor audit trail for the fiscal year 1999 tuition and fee collections making it nearly impossible to trace the daily cash receipts per MnSCU accounting to the deposits per the bank. During fiscal year 1999, the college processed receipts so that several bank deposits related to multiple cash drawer sessions. Because of these limitations, we could not verify that the college deposited all fiscal year 1997 through 1999 tuition and fee collections in the bank, correctly recorded those collections in the MnSCU accounting system, and complied with applicable finance-related legal provisions.

## Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that fiscal year 2000 tuition and fee collections through December 31, 1999, excluding customized training, were accurately reported in the accounting records and in compliance with applicable finance-related legal provisions and management's authorization.

For fiscal years 1997 through 1999, the college deposited the amount of tuition and fee receipts recorded on MnSCU accounting. However, because of missing and inadequate documentation, we could not verify that the college collected and deposited all tuition revenue earned, accurately reported revenue in the accounting system, and complied with applicable finance-related legal provisions and management's authorization. In addition, we found the following control weaknesses over revenue collections:

- The college did not adequately separate duties related to revenue.
- The college did not adequately control its customized training receipts.

Finally, as explained in Chapter 2, Findings 1 and 4, the college did not adequately monitor computer security clearances or safeguard cash receipts.

**6. PRIOR FINDING PARTIALLY RESOLVED: Alexandria Technical College did not adequately separate duties related to revenue.**

Alexandria Technical College did not adequately separate duties related to tuition and fees, foundation, and catering revenue. One business office employee had access to cash, updated the accounting records and completed the monthly bank reconciliations for both the college and the Alexandria Technical College Foundation. Another business office employee:

- established ISRS accounts receivable records for third parties,
- collected cash from students and outside businesses,
- posted cash receipts to the accounts receivable records,
- authorized some tuition adjustments,
- entered tuition adjustments into the accounts receivable records, and
- invoiced and monitored outstanding accounts receivable.

In addition, a food service employee provided catering services, invoiced customers, received payments from customers, and maintained a spreadsheet of accounts receivable. The risk of errors and unauthorized transactions increases when the college does not separate the cashiering function from the authorizing, recording, monitoring, and reconciling functions.

*Recommendation*

- *Alexandria Technical College should separate the cashiering function from the authorizing, recording, monitoring, and reconciling functions.*

**7. Alexandria Technical College did not adequately control its customized training tuition receipts.**

We found several material weaknesses in the internal control structure over customized training revenue. First, the college did not reconcile the customized training cash activities on the MnSCU accounting system to the activities on the customized training database. The customized training department tracked the registration and payment information for individuals on a database. Several weaknesses prevented the college from performing this reconciliation.

- The database did not include the date customers paid registration fees.

- The department did not track all account balances on the database. The department did not include account balances due from contracted businesses. Instead, the department manually tracked these accounts by filing the invoices in folders and removing the invoices once the college received payment. The department then filed the invoices as described below.

- The department did not file receipt documentation in a manner that allowed the department to trace information from the MnSCU accounting system, the database, or the business contracts to the receipt documentation. The department filed the business contracts receipt documentation in a file folder in no particular order and the individual student receipt documentation by course.

- The department did not use the database to track registration fee refunds. After the college issued a refund to a customer, a customized training employee deleted the customer's record from the database.

To ensure the integrity of the accounting systems, the college should reconcile the financial activities recorded on the customized training database to the activities in MnSCU accounting. Without this key reconciliation, the college cannot ensure it collected the correct amount of course fees, deposited all receipts in the bank, correctly recorded amounts in the MnSCU accounting system, or complied with the financial terms of the contracts.

Second, although the business office said it collected the majority of the customized training receipts, at times the customized training department registered students and collected registration fees. Employees accessing the database, which was not password protected, could both register a customer and record the customer payment. These same employees had access to the cash received from customers who paid registration fees at the customized training department. In addition, customized training instructors registered some students and collected registration fees. The instructors were told to forward the registration information and the cash to the customized training department. The college risks having errors and unauthorized transactions go undetected when it does not separate the registration and cash collection functions.

*Recommendations*

- *The college should reconcile the cash activity recorded on the customized training database to the cash activities on the MnSCU accounting system. Both systems should include customer refunds and business contract collections.*

- *The college should file customized training receipt documentation in a manner that allows the college to trace the information from the MnSCU accounting system, customized training database, and business contracts to the receipt documentation.*

- *The college should separate the registration and cash collection functions. The customized training department should direct all paying customers to the business office or develop alternate controls over collecting cash.*

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# Chapter 4. Payroll

## *Chapter Conclusions*

***Alexandria Technical College's internal controls provided reasonable assurance that employee payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college assigned users incompatible clearances to the human resource and payroll systems. In addition, the college did not obtain signed agreements with customized training instructors regarding compensation and did not timely reimburse the state treasury for certain payroll expenditures.***

***For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning payroll. However, the college paid questionable stipends and overtime to six employees.***

Payroll represents the largest expenditure category for Alexandria Technical College. The college incurred employee payroll expenditures of $10 million in fiscal year 1999. College employees belong to various bargaining units, including:

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

During our audit period, the college used the State's Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. The college used the SCUPPS system to monitor and evaluate compensation paid to employees. It also used SCUPPS to identify the different types of classification assignment codes pertaining to faculty appointments. SEMA4 contained pay rate information and calculated the employee payroll amount. The college also used the SCUPPS leave module to track leave accruals for the administrators and faculty. The college used SEMA4 to track all other employees' leave.

The college maintained separate human resource and payroll offices to process personnel and payroll transactions. A human resource office employee entered personnel transactions into SCUPPS while payroll clerks from the business office ensured the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system.

# Alexandria Technical College

## Audit Objectives and Methodology

Our audit of payroll expenditures focused on the following questions:

- Did the college's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and 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 payroll?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel processes. We interviewed college employees, analyzed payroll transactions to determine unusual trends, and reviewed computer security clearances for the payroll and human resources systems. We also reviewed source documents to determine proper authorization and recalculated some payroll amounts to ensure proper payment.

## Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that employee payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college assigned users incompatible clearances to the human resource and payroll systems. In addition, the college did not obtain signed agreements with customized training instructors regarding compensation and did not timely reimburse the state treasury for certain payroll expenditures.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning payroll. However, the college paid questionable stipends and overtime to six employees.

**8. Alexandria Technical College did not obtain signed agreements with customized training instructors regarding compensation.**

Alexandria Technical College did not obtain signed agreements with customized training instructors regarding the instructors' hourly rates. The UTCE contract states, "The compensation for customized training faculty…shall be determined by the College President or designee." Management from the customized training department established hourly rates with the instructors. However, the college did not require that the instructors sign the agreements. The college risks incorrectly compensating customized training instructors and having disputes with the instructors over compensation when it does not require a signed agreement with the instructor regarding compensation.

*Recommendation*

- *The college should obtain signed agreements with customized training instructors regarding compensation.*

### 9. The college paid questionable compensation to six employees.

The college paid questionable stipends to five employees and questionable overtime to one intermittent employee. The college paid two administrative employees $200 each for participating in a student organization conference. At the time the college paid these administrators, nothing in the Excluded Administrators' Plan provided for this type of stipend. In addition, the Excluded Administrators' Plan stated, "Excluded administrators are paid for accomplishing their jobs, not for hours worked. Further, since they normally have the ability to schedule their time to accomplish their goals and objectives, they are excluded from Fair Labor Standards Act coverage, and are therefore not compensated for overtime." We feel these payments are not in accordance with the plan, resulting in potential overpayments of $400.

Similarly, the college paid questionable stipends to three MAPE employees for participating in student organization conferences. Participating at these conferences was not within the normal job duties for these employees. The MAPE agreement states, "Employees may receive overtime at the rate of straight-time when assigned to a special work assignment which is in addition to their normal job duties…." However, the college compensated these employees based on the UTCE contract's "Unique Assignment" provision which states, "A faculty member may be assigned duties that are not described in this agreement by mutual agreement between the faculty member, UTCE Chapter, and the College President or designee." The college paid these employees at a rate greater than their regular MAPE hourly rate, resulting in potential overpayments of $522.

Finally, the college did not consistently compensate a Commissioner's Plan intermittent employee for the hours worked in excess of eight hours a day. During the beginning of the audit period, the college paid this employee time and one-half for all hours worked in excess of an eight-hour workday. Later, the college paid this employee overtime at a rate of time and one-half only when the employee worked in excess of a 40-hour workweek. The Commissioner's Plan states, "Overtime. All hours worked in excess of the employee's standard work day or 8 hours, whichever is greater, or on a regularly scheduled day off." This employee was on-call to work anywhere from 2 to 12 hours a day and did not have an established standard workday. The college potentially overpaid this employee $118 when it paid time and one-half for the hours worked in excess of an eight-hour workday.

*Recommendation*

- *The college should work with the Department of Employee Relations and the MnSCU system office to determine the appropriate compensation for these six employees.*

**10. Alexandria Technical College did not timely reimburse the state treasury for certain payroll expenditures.**

Alexandria Technical College did not timely reimburse the state treasury for its enterprise, student organization, and foundation-funded payroll expenditures. The college reimbursed the state treasury for these local payroll expenditures about every six months. As of December 31, 1999, the college owed the state treasury $73,571. That debt grew each pay period until February 8, 2000, when the college reimbursed the state treasury $104,932. By March 21, 2000, the college owed the state treasury another $34,419. The college originally pays all payroll costs from state treasury funds. However, the college maintains enterprise, student organization, and foundation funds in a local checking account. The college must transfer funds from the local accounts to the state treasury for payroll expenditures of activities not maintained in the state treasury.

*Recommendation*

- *The college should reimburse the state treasury accounts for local payroll expenditures each pay period.*

# Chapter 5. Purchased Goods and Services

## *Chapter Conclusions*

***Alexandria Technical College's internal controls provided reasonable assurance that expenditures for goods and services were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, the college used the incorrect date when entering transactions into the accounting system.***

Alexandria Technical College paid over $11.5 million for supplies, equipment, land, betterments to buildings, and land improvements during the audit period. Of this amount, the college purchased approximately $5.4 million in supplies, $4.3 million in equipment, $160,000 in land, and $1.6 million in betterments to buildings and land improvements. In addition, the college paid over $6.2 million for services such as repairs and alterations to buildings, equipment and laptop computer rental, computer services, advertising, and other services.

Department employees determined the need for goods or services and initiated the purchase. The employees obtained quotations, if required. Certain department employees at the college have access to the online purchasing system. For these departments, the employee generated a purchase order and encumbered funds. For departments without access to the online purchasing system, department employees completed a requisition that identified the item, the requestor, the vendor, the price, and the cost center. The department sent the requisition to the business office, where employees generated a purchase order, encumbered funds, and sent the purchase order to the vendor.

The college specified that vendors ship goods to a central receiving location. Maintenance workers delivered the goods to the requestor. The person requesting the goods or services signed a copy of the purchase order documenting receipt. The business office matched the invoice, purchase order, receiving documentation, and purchase requisition, if applicable. Accounts payable staff in the business office processed the payments on the MnSCU accounting system. If the item purchased was equipment costing more than $2,000, the business office recorded the asset in the fixed asset inventory system.

## Audit Objectives and Methodology

Our audit of purchased goods and services focused on the following questions:

- Did the college's internal controls provide reasonable assurance that expenditures for goods and services were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the college comply, in all material respects, with significant finance-related legal provisions concerning purchased goods and services?

To answer these questions, we interviewed employees to gain an understanding of the purchasing, recording, and invoice paying processes. We reviewed the process the college used to ensure it received services or goods before making payment. We reviewed a sample of expenditures to determine if the college complied with purchasing, prompt payment, and recording requirements. We also reviewed the college's process to record, track, and safeguard fixed assets.

## Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that expenditures for goods and services were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, the college used the incorrect date when entering transactions into the accounting system.

**11. Alexandria Technical College used the incorrect date when entering expenditures into the accounting system.**

Alexandria Technical College used the incorrect liability date when entering expenditures into the accounting system. The college entered the invoice date as the occurrence date rather than the date it received the goods or services for nearly all transactions tested. Department of Finance policies require that the college enter the date it received the goods or services as the occurrence date. College employees and others use this date for financial reporting purposes.

*Recommendation*

- *The college should enter the date it received goods and services as the occurrence date.*

# Chapter 6.  Student Financial Aid

## *Chapter Conclusions*

***Alexandria Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations.  For the items tested, the college complied with applicable federal requirements over receiving federal funds.  However, we found that the college did not adequately separate the recording and disbursing functions related to student payroll.***

Alexandria Technical College participated in the following student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplementary Education Opportunity Grant (FSEOG) Program (CFDA #84.007)
- Minnesota State Grant Program
- Minnesota State Work-Study Program
- Minnesota State Child Care Program

To apply for financial aid, students completed an application and submitted it to the federal central processor.  The college received the processed information electronically from the processor for students who applied for enrollment at the college.  The college packaged and awarded financial aid using the Student Aid Reporting and Analysis system (SARA).  The college interfaced award information from SARA to MnSCU's Integrated Student Record System (ISRS).

Students generally received the Federal Pell Grant as the first source of assistance.  The federal government did not limit Federal Pell Grant funding to the college, and all eligible students received Federal Pell Grant awards.  The maximum Federal Pell Grant award for each student during the 1999-2000 award year was $3,125.  The federal central processor calculated each student's expected family contribution, which the college used to determine the award.

Under the Federal Family Education Loan (FFEL) Program, loans went to a guaranty agency where private lenders were contacted to provide the loan principal to eligible students.  The federal government guaranteed the loan.  For Federal Stafford Loans, the federal government paid interest to the lender while the student attended school and during certain deferment periods.  For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrued from the date of origination and the borrower assumed responsibility for the interest.  First year students could borrow up to $2,625 per year under the Federal Subsidized and Unsubsidized Stafford Student Loan Programs.  Second year students could borrow up to an additional $3,500.

The college also awarded Federal Work-Study (FWS) and Federal Supplemental Educational Opportunity Grants (FSEOG) to eligible students.  The federal government share must not exceed 75 percent of the total expenditures in these two programs.  The state contributed the remaining 25 percent of the program funding.

Alexandria Technical College also participated in the other financial aid programs funded by the Minnesota Higher Education Services Office (MnHESO).  For the Minnesota State Grant Program, the college awarded grants to Minnesota residents who demonstrated financial need, attended school in Minnesota, and did not exceed the equivalent of 12 full-time quarters of attendance.

## Audit Objectives and Methodology

Our audit of financial aid focused on the following questions:

- Did Alexandria Technical College's internal controls provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?

- For the items tested, did Alexandria Technical College comply with applicable federal requirements over receiving federal funds?

To answer these questions, we evaluated and tested controls for determining student eligibility and controls for packaging, awarding, and disbursing federal financial aid.  We also evaluated and tested the college's federal cash management procedures.

## Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations.  For the items tested, the college complied with applicable federal requirements over receiving federal funds.  However, we found that the college did not adequately separate the recording and disbursing functions related to student payroll.

**12. Alexandria Technical College did not adequately separate duties related to student payroll.**

Alexandria Technical College did not separate the recording and disbursing functions for student payroll, including Federal Work-Study, during fiscal year 2000.  The college's two payroll clerks processed student payroll on MnSCU accounting's new student payroll module. In addition, these clerks accessed the student payroll checks when they inserted them into envelopes prior to giving the checks to the college receptionist for distribution to students. The risk of errors and unauthorized transactions increases when employees access both the accounting records and the cash.

*Recommendation*

- *The college should separate the student payroll recording and disbursing functions.*

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# Status of Prior Audit Issues
# As of May 26, 2000

## Most Recent Audits

### College Audit

**Legislative Audit Report 97-38,** issued July 1997, covered the period July 1, 1995, through December 31, 1996. The audit cited twelve audit findings related specifically to Alexandria Technical College. The college fully implemented the recommendations relating to prior Findings 2, 3, 5, 6, 7, 11, and 12. The college partially implemented prior Findings 1, 4, and 8 as explained in the following:

- The college performed some key reconciliations stated in prior Finding 1, but did not complete all reconciliations, as reported in current Finding 3.
- Prior Finding 4 related to the safeguarding of receipts. The college restrictively endorsed checks, but did not keep receipts in a secure location, as stated in current Finding 4. We could not determine if the college promptly deposited customized training receipts due to the items stated in current Finding 7.
- Prior Finding 8 dealt with the inadequate separation of duties for the financial aid process. The college separated the awarding, posting, and check generating functions. It also separated the awarding and cash handling process. However, an employee continues to have access to the funds, records, and reconciliations, as reported in current Finding 6.

Finally, we did not pursue the status of prior Findings 9 and 10 relating to loans between student organizations and inaccurate identification of some transactions in MnSCU accounting. MnSCU internal audit considers these prior findings to be implemented.

### Statewide Audits

**Legislative Audit Report 00-11,** issued March 2000, and **Legislative Audit Report 99-19,** issued March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1999, and June 30, 1998, respectively. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. These reports did not include any findings related specifically to Alexandria 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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September 6, 2000

Mr. James Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles

Thank you for the opportunity to respond to the audit report of Alexandria Technical College for the period July 1, 1996 through December 31, 1999.

My thanks to your staff for the professional manner in which the audit was conducted

Listed below is our response to the findings:

1. **Alexandria Technical College did not adequately monitor computer security clearances.**

   Corrective action has already been taken. We will continue to review security clearances on a periodic basis. Mitigating controls will be established when appropriate. We will work with MnSCU to establish controls and to narrow the scope of authorization within certain security clearances.

   Responsible parties: Jan Mahoney, CFO
   Implementation date: September 1, 2000

2. **Alexandria Technical College did not retain documentation necessary to verify certain financial activity.**

   Record retention policies will be updated. The policies will be posted and staff will be directed to retain documentation based on the policy.

   Responsible parties: Jan Mahoney, CFO
   Implementation date: November 1, 2000

3. **Alexandria Technical College did not perform key reconciliations for certain accounts.**

The college will work with MnSCU to develop a process to reconcile the General Project and Building Funds. Once the process is complete, the college will reconcile the MnSCU accounting system to MAPS for these funds. The Clearing Fund reconciliation is complete as of the date of this report. The imprest cash bank account is also complete and is reconciled monthly.

Responsible parties: MnSCU System Office & Jan Mahoney, CFO
Implementation date: January 1, 2001

4. **Alexandria Technical College did not adequately safeguard cash.**

As of the date of this report, the college has implemented the practice of promptly placing the bank bags and cash drawers in the safe, and storing the $100 cash-on-hand checkbook in a secure location. Collection of receipts in multiple locations will be studied and minimized. A security system for entrance to the business office will be installed if financially feasible.

Responsible parties: Jan Mahoney, CFO
Implementation date for study and security system: February , 2001

5. **Alexandria Technical College did not measure and report all costs for enterprise operations.**

The college will identify and report all costs of its food service and DECA store operations for financial reporting purposes and management decisions.

Responsible parties: Jan Mahoney, CFO
Implementation date: July 1, 2001

6. **Alexandria Technical College did not adequately separate duties related to revenue.**

To the extent that resources will allow, the college will separate the cashiering function from the authorizing, recording, monitoring, and reconciling functions through the hiring of additional staff. If resources are not adequate to hire to the desired level, the college will work with MnSCU to establish mitigating controls.

Responsible parties: MnSCU System Office & Jan Mahoney, CFO
Implementation date: April 1, 2001

7. **Alexandria Technical College did not adequately control its customized training tuition receipts.**

   The college will reconcile the cash activity recorded on the customized training database to the cash activities on the MnSCU accounting system. This will be accomplished manually until the implementation of the ISRS Customized Training module. Implementation of the ISRS system will aid in the creation of appropriate audit trails and filing systems.

   It is the policy of the college to separate the customized training registration and cash functions. The present process requests pre-payment for classes. An exception may occur when students register and pay the first night of class. The college will work with MnSCU to establish mitigating controls when such exceptions occur.

   Responsible parties: Kevin Kopischke, Vice President, Customized Training
   Implementation date: July 1, 2001

8. **Alexandria Technical College did not obtain written agreements with customized training instructors regarding compensation.**

   As of the date of this report the college is obtaining written agreements with customized training instructors regarding compensation.

   Responsible parties: Kevin Kopischke, Vice President, Customized Training
   Implementation date: N/A

9. **The college paid questionable compensation to six employees.**

   The college will work with the Department of Employee Relations and the MnSCU system office to determine the appropriate compensation for these six employees.

   Responsible parties: Shari Maloney, Human Resources Director
   Implementation date: November 1, 2000

10. **Alexandria Technical College did not timely reimburse the state treasury for certain payroll expenditures.**

    The college will reimburse the state treasury accounts for local payroll expenditures each pay period.

    Responsible parties: Jan Mahoney, CFO
    Implementation date: September 15, 2000

**11. Alexandria Technical College used the incorrect date when entering expenditures into the accounting system.**

As of the date of this report, the college enters the date goods are received as the occurrence date.

Responsible parties: Jan Mahoney, CFO
Implementation date: N/A

**12. Alexandria Technical College did not adequately separate duties related to student payroll.**

As of the date of this report, the college separated the duties of student payroll recording and disbursing.

Responsible parties: Jan Mahoney, CFO
Implementation date : N/A

Sincerely,

Larry W. Shellito

Larry W. Shellito, Ed. D
President