OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minneapolis Community and Technical College

July 1, 1996, through December 31, 1999

SEPTEMBER 15, 2000 **00-44**

Financial Audit Division

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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.

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

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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

Mr. Phillip Davis, President
Minneapolis Community and Technical College

We have audited the Minneapolis Community and Technical College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included general financial management, tuition and fees, payroll and operating expenditures, and the bookstore. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000.

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 also require that we design the audit to provide reasonable assurance that Minneapolis Community and Technical College complied with the 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 for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Minneapolis Community and Technical College. 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: June 23, 2000

Report Signed On: September 11, 2000

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Mike Hassing, CPA	Auditor-in-Charge
Charlie Gill	Auditor
Theresa Hahn	Auditor
Alan Sasse	Auditor
April Snyder	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Minneapolis Community and Technical College at the exit conference held on August 25, 2000:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	System Director for Financial Reporting
Deb Winter	System Director of Campus Assistance
Beth Hammer Buse	Deputy Director, Office of Internal Auditing
Jennifer Struemke	Internal Audit Coordinator
Andrew Boss	Chair, MnSCU Audit Committee
Minneapolis Community and Technical College:	
Phillip Davis	President
Susan Nemitz	Vice President, Finance and Operations
Marie Peterson	Business Manager
Michelle Roen	Business Office

Report Summary

Key Findings and Recommendations:

- Minneapolis Community and Technical College continued to struggle with its financial management practices. We concluded that the underlying cause of these difficulties related to the organizational structure of the college's financial management function and inadequate staffing levels. (Finding 1, page 7)

- Poor financial management practices cited in the audit report include the following prior audit findings that had not been resolved by the college:
  - -- The college had not reconciled the cash balance in its bank account to amounts recorded in the accounting system since July 1999. Also, during this audit, the college did not ensure that sufficient collateral was pledged against funds on deposit. (Finding 2, page 7)
  - -- The college did not post adjusting entries in the accounting system in a timely manner. (Finding 4, page 10 and Finding 12, page 26)
  - -- We found numerous instances of inappropriate access to the college's computer systems. (Finding 5, page 10)
  - -- The college did not timely deposit receipts or adequately monitor commission revenues or parking cards. (Finding 3, page 9, Findings 10 and 11, pages 22 and 23)

- The college needs to resolve discrepancies in its accounts receivable balances and periodically write-off uncollectible accounts. (Finding 8, page 16)

- The college incurred obligations prior to ensuring sufficient funds were available, exceeded a contract amount, did not pay invoices promptly, and did not properly record the date liabilities were incurred. (Finding 14, page 30)

Other Key Audit Conclusions:

The college operated within its available resources and complied with the system office reserve requirements. As of June 30, 1999 the college had an unrestricted reserve in its General Fund of approximately $2.4 million. The college administered federal financial aid in compliance with applicable regulations. In addition, the college maintained an appropriate relationship with its foundation. The college also improved certain financial operations since the last audit, including the administration of the college bookstore and processing of the college's payroll.

Agency Response:

In its response, the Minneapolis Community and Technical College agreed with the report's findings and is taking corrective action to resolve the issues.

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Chapter 1. Introduction

Minneapolis Community and Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. Minneapolis Community and Technical College is a two-year college serving more than 10,000 students each year. It has approximately 4,300 full-time equivalent students and is accredited by the North Central Association of Colleges and Secondary Schools. Mr. Phillip Davis is the president of the college.

Table 1-1 highlights the financial activity for Minneapolis Community and Technical College for fiscal year 1999. State appropriations and tuition and fees support the General Fund activity. The Special Revenue Fund includes various dedicated revenues such as federal financial aid, federal grants, and private grants. The Enterprise Fund includes financial activities from the bookstore, parking ramp, food service, and resale programs.

The college is affiliated with the Minneapolis Community and Technical College Foundation, an autonomous, non-profit organization. The foundation had revenues of approximately $106,000 and expenses and gifts of approximately $55,000 for the year ended June 30, 1999. Foundation expenses supported the college's Martin Luther King celebration and student scholarships and loans.

Table 1-1
Fiscal Year 1999 Financial Activity

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenue:				
State Appropriation	$19,087,030	$ 0	$ 0	$ 0
Tuition and Fees	10,027,631	450,635	163	0
Sales and Services, Net	80,826	1,219	863,873	0
Federal Grants	0	12,438,595	0	0
State Grants	1,625,724	0	0	0
Private Grants	590	4,155	9,000	68,525
Other Income	59,540	5,993	13,554	0
Total Revenues	$30,881,341	$12,900,597	$ 886,590	$68,525
Expenditures:				
Salaries	$21,732,966	$ 3,500,480	$ 567,616	$ 0
Purchased Services	2,713,996	269,946	335,024	9,778
Supplies	2,058,869	202,484	79,595	124
Utilities	1,067,459	803	105,904	0
Contracts/Consultants	351,725	25,897	18,497	0
Financial Aid	1,306,379	4,474,905	0	17,238
Capital Expenditures	493,116	4,000,600	6,441	0
Debt Service Interest	192,002	0	83	0
Other	842,181	358,001	26,578	800
Total Expenditures	$30,758,693	$12,833,116	$1,139,738	$27,940
Transfers:				
Transfers In	$ 28,596	$ 0	$ 0	$ 0
Transfers Out	$ 0	$ 0	$ 0	$ 0
Net Transfers	$ 28,596	$ 0	$ 0	$ 0
Change in Fund Balance	$ 151,244	$ 67,481	$(253,148)	$ 40,585
Beginning Fund Balance	$ 7,921,588	$ (131,668)	$1,819,106	$ 31,005
Ending Fund Balance (5)	$ 8,072,832	$ (64,187)	$1,565,958	$ 71,590

Note 1: This table is presented 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 appropriations, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included.

Note 2: Enterprise funds do not include all operating costs such as rent and utilities..
Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and services – Gross	$2,364,179
Cost of Goods Sold	(1,500,306)
Sales and Services – Net	$ 863,873

Note 3: Compensated absence liabilities at June 30, 1999, were $1,786,835 for the General Fund, $187,862 for the Special Revenue Fund, and $49,908 for the Enterprise Fund. These liabilities represent the amount due college employees for accrued vacation leave, sick leave, and compensatory leave at June 30.

Note 4: The General Fund Ending Fund Balance at June 30, 1999, includes an unrestricted reserve of $2,350,051, as calculated by the college. The college is required to maintain a reserve according to board policy. The remaining fund balance was restricted for various commitments, including retiree's health benefits, unemployment compensation, repair and betterments, state grants, and other obligations.

Note 5: The beginning and ending negative fund balances in the Special Revenue Fund resulted from the college not drawing all federal financial aid and federal grant funds in a timely manner during this time frame (See Chapter 7, Finding 16). The college deposited the funds after the books were closed for the fiscal year.

Source: Minneapolis Community and Technical College and MnSCU accounting.

Chapter 2. Financial Management

Chapter Conclusions

Minneapolis Community and Technical College continued to struggle with its financial management practices during the audit period. The college did not timely reconcile bank accounts, did not ensure that all financial activity was accurately recorded in the accounting records in a timely manner, and did not adequately safeguard the assets of the college. The college made some changes in operations from the last audit. It improved the administration of the college bookstore and processing of the college's payroll. However, the college did not fully implement many prior audit recommendations.

The college operated within its available resources and complied with the system office reserve requirements. As of June 30, 1999 the college had an unrestricted reserve in its General Fund of approximately $2.4 million. The college also had an appropriate relationship with its foundation.

The college struggled with the management of its financial activities and internal control structure. The business office had a difficult time maintaining appropriate staffing levels. In addition, the separate physical locations of the business office and accounting section did not promote efficiency. This forced the business office to compromise controls due to a lack of separation of duties, inexperienced temporary employees, and insufficient supervision. As a result, fundamental financial management controls, such as reconciling bank accounts to the accounting system, promptly depositing and recording receipts, and safeguarding the college's assets were not being completed in a timely manner.

Minneapolis Community and Technical College receives the majority of its funding for operations from General Fund appropriations allocated from the MnSCU system office. The Minnesota State Colleges and Universities (MnSCU) system office distributes appropriated funds to all colleges and universities based on an allocation formula. In addition, Minneapolis Community and Technical College, like other MnSCU institutions, retains tuition and other local receipts it collects to arrive at its total authorized spending level.

The college administration is ultimately accountable for financial planning, budgeting, and spending decisions. It is the college's responsibility to develop and adhere to a budget that is fiscally sound. The college ended fiscal year 1999 with a General Fund budget reserve of approximately $2.4 million.

The college's process for monitoring the budget involved various levels of management, including the president. Senior management of the college regularly discussed budget and spending information at cabinet meetings. We were told, however, that the timing of certain financial reports and other information was not frequent enough for strong financial management decisions.

The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses use MnSCU accounting to initiate transactions that involve appropriated funds. MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS then generates state treasury warrants for state-appropriated expenditures. The college recorded all financial activity, including local transactions, directly into MnSCU accounting. The college continues to maintain multiple bank accounts for its various activities.

Audit Objectives and Methodology

Our review of the college's overall financial management focused on the following questions:

- Were the college’s financial activities properly recorded on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college operate within available financial resources in compliance with applicable legal provisions and management’s authorization?
- Did the college have an appropriate operating relationship with the Minneapolis Community and Technical College Foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system as it pertained to each of the individual program areas discussed in the following chapters. We also gained an understanding of management controls, such as budgeting practices in place over the college’s financial activities included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded revenue and expenditure transactions in MnSCU accounting. We also followed up on the status of prior audit recommendations.

Conclusion

The internal control structure of Minneapolis Community and Technical College did not provide reasonable assurance that the college managed its financial affairs effectively or recorded financial activities on the MnSCU and MAPS accounting systems in a timely manner. As reported in Findings 1 - 6, the college did not perform fundamental financial control procedures, such as completing bank account reconciliations in a timely manner and safeguarding assets of the college. We found that the college did not implement the prior audit recommendations in the financial management area. We did conclude, however, that the college operated within its available financial resources. The college also had an appropriate relationship with the Minneapolis Community and Technical College Foundation.

1. PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College needs to improve its overall financial management.

The college continued to have a weak system of internal controls over its financial management practices. We identified significant concerns relating to the college's financial management practices. The college:

- had not timely completed bank account reconciliations;
- was not current in posting financial transactions to MnSCU or MAPS accounting systems;
- did not adequately safeguard the assets of the college; and
- did not properly control access to its computerized information systems.

These items were all identified as control weaknesses in the prior audit report. Findings 2 through 6 contain detailed information and specific recommendations related to these issues.

We believe that an underlying factor to these weaknesses is the accounting and business office staffing levels and organizational structure. The business office has had a difficult time recruiting and retaining staff. For example, the business manager had to process payroll for six months because a payroll position could not be filled. Also, the position of college buyer was vacant for two years. These vacancies resulted in a lack of segregation of duties since the business manager had to assume the payroll and purchasing responsibilities. In addition, the separate physical locations of the business office and accounting section did not promote efficiency. These issues forced the business office to compromise controls due to a lack of separation of duties, the need to rely on inexperienced temporary employees, and insufficient supervision. As a result, fundamental financial management controls, such as reconciling bank accounts, depositing and recording receipts promptly, and safeguarding the college's assets were not being completed in a timely manner. Throughout the audit, we experienced significant delays in obtaining financial information and supporting documentation from the college. We believe the delays were indicative of the need for the college to improve its overall financial management.

Recommendation

- *The college should review the organizational structure and staffing levels of the accounting and business offices and make modifications as needed to strengthen financial controls and to promote timely and accurate financial information.*

2. Minneapolis Community and Technical College did not adequately control local bank account activity.

We identified the following four conditions where the college did not effectively manage its local bank account activity. The college:

- did not timely reconcile bank accounts;
- did not have sufficient collateral pledged against funds on deposit in local bank accounts;
- did not maximize the earning potential of available funds; and
- maintained cash balances in two inactive bank accounts.

First, the college had not completed reconciliations of the cash balances in its local bank accounts to amounts recorded on MnSCU accounting in a timely manner. This is a prior audit finding that had been repeated for several audits. Reconciliation problems resurfaced when the college began using the Integrated Student Record System (ISRS) in July 1999. Bank reconciliations help to ensure that the accounting records accurately reflect all financial activity and protect against errors and irregularities going undetected.

Second, the college did not have sufficient collateral from the bank to cover its funds on deposit. This resulted from consolidating bank account activity, including the deposit of federal financial aid funds into the college's general account. We identified insufficient collateral in five of the six months from November 1999 through April 2000. In one instance in January 2000, the college's general account had a balance of $6,149,365. The market value of the bank's pledged collateral was $2,966,111. The college also had funds on deposit in three other accounts at the same bank. In addition to the insufficient collateral, the college could not locate collateral reports for several months during the audit period. Minn. Stat. Section 118A.03, subd. 3 requires the total amount of collateral, at its market value, to be at least ten percent more than the amount on deposit at the close of the business day. The college needs to actively monitor the total funds on deposit to ensure compliance with legal requirements.

Third, in lieu of paying various bank fees, the college did not earn interest on its bank account balances. The college had an average daily cash balance in its general bank account of almost $2.5 million from July 1999 through May 2000. The college also had four additional accounts at the same bank. The college should reevaluate its banking relationship to determine if its compensating balance arrangement with the bank is cost beneficial or if the college is losing potential revenue from interest or investment earnings on available cash deposits.

Fourth, the college indicated that it was not using two of its bank accounts, although there were cash balances in each account. The college has a total of five bank accounts. In addition to the general account, the college had a student financial aid account, student refund account, and a scholarship account at the same bank. The college also has an investment account at another bank. The college only receipted federal cash draws into the student financial aid account and then transferred funds to the general account for disbursement. On April 30, 2000 the financial aid account had a balance of $174,000. The college had not had any financial activity in the student refund account since February 1999, maintaining a balance of approximately $41,000 in the account for over one year. The college is assuming unnecessary risks of theft or abuse and not effectively managing its banking relationships by keeping balances in inactive bank accounts.

Recommendations

- *The college should reconcile local bank accounts to MnSCU accounting in a timely manner and ensure that all reconciling items are satisfactorily explained and documented.*

- *The college should monitor its bank balances to ensure that it has sufficient collateral pledged against its deposits to comply with Minn. Stat. Section 118A.03, subd. 3.*

- *The college should evaluate whether or not its compensating balance arrangements with the bank are cost effective or if it is losing potential interest and investment earnings on available cash.*

- *The college should close all inactive bank accounts and transfer the balances to its general account.*

3. PRIOR FINDING NOT RESOLVED: The college did not deposit all receipts in excess of $250 daily.

The college did not always deposit funds daily as required by state law. We identified transactions in various areas of the college, including the business office, bookstore, and automotive shop that did not meet the deposit requirement. Minn. Stat. Section 16A.275 requires that the college deposit all receipts in excess of $250 daily.

In testing tuition receipts processed by the business office, we found that 6 of the 13 tuition deposits during the period from July 1999 to December 1999 were made three to six days after receipt. The late deposits totaled about $226,000. We tested five additional tuition receipts that the business office processed between July 1996 and June 1999. The business office processed two of the five tuition deposits, totaling approximately $23,479, three to six days after receipt.

We also found that the college did not promptly deposit bookstore receipts on 9 of 20 days tested. Some bookstore receipts were held for up to two weeks before they were deposited. In addition, the automotive technology program retained receipts for periods longer than a week. Program staff held funds totaling $1,825 for at least nine days prior to making the deposit.

The college assumes additional risks of loss or theft of funds by not timely depositing funds. In addition, the college loses potential interest or investment earnings when it does not deposit funds promptly.

Recommendation

- *The college should deposit receipts, totaling $250 or more, on a daily basis as required by Minn. Stat. Section 16A.275.*

4. PRIOR FINDING NOT RESOLVED: The college did not record financial transactions in the MnSCU accounting system in a timely manner.

The college did not timely post adjusting entries to the MnSCU accounting system. Staff in the MnSCU system office reconciled the college's financial transactions recorded on the MnSCU accounting system to the state's accounting system, MAPS. They identified account differences between the two systems and forwarded adjusting transactions to the college periodically. This included financial activity recorded in the following accounts of the college: general, federal grant, payroll clearing, federal Carl Perkins, private grant, and repair and betterment. In May 2000, the college made entries to MnSCU accounting for fiscal year 1997 and fiscal year 1998. The college made the adjusting entries for fiscal year 1999 on June 23, 2000.

The college also did not settle its payroll clearing account in a timely manner. The college used the payroll clearing account to process payroll warrants for employees funded from programs maintained outside the state treasury. The college is supposed to deposit funds into the clearing account to offset the payroll expenditures that occur on each payday. If transactions are accurately recorded, the account should have a zero balance when processing is complete. However, as of January 12, 2000, the college had a cash balance of $1,854,648 in the clearing account. Therefore, the college is not promptly reversing its cash entries to eliminate the account balance.

The college had incorrectly recorded $234,000 in fiscal year 1997 federal work-study expenditures as fiscal year 1998 expenditures. By the time the college identified this problem, it had to charge the expenditures to the wrong fiscal year because the accounts for the correct fiscal year had already been closed.

As discussed in Finding 3, the college also did not timely deposit receipts. This resulted in the college not promptly recording bookstore and automotive technology financial information in the MnSCU accounting system.

The college cannot produce accurate reports and financial information for management analysis and decisions without recording and posting all accounting transactions promptly.

Recommendation

- *The college should record and post all accounting transactions and adjusting entries promptly.*

5. PRIOR FINDING NOT RESOLVED: The college did not monitor access to its computer systems.

We found numerous instances where college employees had update access to college information systems that did not correlate to their current job responsibilities. We noted other MnSCU employees, not employed by the college, who had access to the college's information systems.

In addition, we think the college should strengthen its ongoing process of monitoring computer system access. We highlight these critical weaknesses in the following discussion.

- Several college employees had information system access that did not correlate with their current job duties.
  - -- Eleven college staff, including three information technology staff, had full update access to the accounting system.
  - -- Fifteen college staff had update access to cash receipt screens within the accounts receivable module. Seven of these staff had update clearance for all screens within the accounts receivable module.
  - -- Two college information technology employees had update access to the financial aid system.
- Ten system office employees had full update clearance to the accounting system. . There were also eight system office employees with update clearance to cash receipt functions within the accounts receivable module.
- One past employee of the college and two employees of other MnSCU institutions had full update access to the college's accounting system. Another employee of a different MnSCU institution had full update access to the college's accounts receivable module.
- We found five instances where three college employees shared user IDs or passwords. This control weakness prevents the college from identifying the individual processing transactions in the event the college detects errors or unauthorized transactions.

Minneapolis Community and Technical College did not periodically review system access reports to ensure that employees have only the clearance required to perform their job duties. It is important to review access reports as personnel and job duties change. Without a periodic review, the college cannot ensure that only authorized individuals had access to its systems, or that only authorized transactions were processed.

Recommendations

- *The college should ensure that supervisors responsible for the various computer system applications periodically review system access reports to ensure that only authorized employees have computer access and that the access is appropriate.*
- *The college needs to ensure employees do not share user IDs or passwords.*

6. PRIOR FINDING NOT RESOLVED: The college had not completed a physical inventory of college assets and property in many years.

The college had not conducted a complete physical inventory of its assets since the MnSCU merger in July of 1995. The college's fixed asset reports were outdated and incomplete. The college recorded new assets on the fixed asset system, but did not remove old assets or monitor the existence or current location of assets on campus. The historical cost of old assets was not accurately reported on the asset listings. Therefore, the college cannot accurately report the value of its fixed asset inventory for financial reporting purposes.

Periodic physical inventories of fixed assets help ensure that fixed asset records are accurate and that the college's assets are adequately safeguarded. Results of physical inventory counts could highlight the need to change record keeping procedures or controls to safeguard assets.

Recommendation

- *The college needs to complete a physical inventory of all assets and record the proper location, asset identification number, and value of assets owned.*

Chapter 3. Tuition Revenue

Chapter Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, the college needs to document its verification of tuition waivers, resolve discrepancies in accounts receivable balances, and write-off uncollectible accounts.

For the items tested, the college complied with applicable finance-related legal provisions, except, as reported in Chapter 2, Finding 3, the college did not promptly deposit all of its receipts.

Credit-Based Tuition and Fee Revenue

Minneapolis Community and Technical College collected approximately $10.5 million in tuition and fees during fiscal year 1999. The college uses the MnSCU accounting system for bookkeeping and general ledger capabilities. Prior to July 1999, the college maintained registration and accounts receivable information for each student on the College Information System (CIS), which interfaced with MnSCU accounting. In July 1999, the college converted to the Student Information System (SIS) module on MnSCU's Integrated Student Record System (ISRS) to directly register, bill, and record tuition collections from students. ISRS also interfaces with MnSCU accounting.

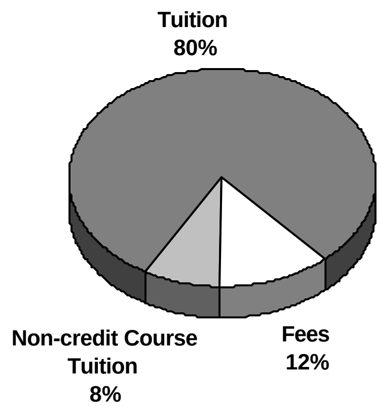
The resident tuition rate for the 1999-2000 school year was $70.25 per semester credit. Non-resident students paid $140.50 per semester credit. Students enrolled in the law enforcement and film and video programs paid $110 per semester credit plus miscellaneous fees.

Non-Credit Course Tuition

The college collected revenue for non-credit courses, including continuing education courses and customized training courses. The college offered continuing education courses to the general public and developed contract-training courses to meet the educational needs of a specific business or industry. The college used the ACEware system to register, bill, and collect payments from students for continuing education courses and entered the receipts on ISRS as a general receipt. The business office collected all receipts for these programs.

Figure 3-1 shows the breakdown of the major tuition and fee types collected for fiscal year 1999.

Figure 3-1
Tuition, Fees, and Non-Credit Course Tuition
Fiscal Year 1999



Source: MnSCU accounting.

Audit Objectives and Methodology

Our review of the college's tuition and fee revenue focused on answering the following questions:

- Did the institution's internal controls provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the institution comply with the significant finance-related legal provisions concerning tuition?

To address these objectives, we interviewed college employees to gain an understanding of the controls over billing, collecting, depositing, and recording tuition, fee, and non-credit tuition revenue. We reviewed student registration and accounts receivable records and MnSCU accounting records to determine if the college charged students appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the college complied with applicable legal provisions regarding prompt deposit.

Conclusion

Minneapolis Community and Technical College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as discussed in Findings 7 and 8, the college did not adequately document its review or verification of tuition waivers and needs to resolve discrepancies in its outstanding accounts receivable balances and write-off uncollectible accounts.

For the items tested, the college complied with applicable finance-related legal provisions, except, as discussed in Chapter 2, Finding 3, the college did not promptly deposit all of its receipts.

7. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately document its monitoring of tuition waivers.

The business office did not document that someone independent of the cashiers monitor tuition waivers to ensure that only authorized waivers occurred. The cashiers in the business office have the authority to waive tuition charges as part of their cashiering responsibilities. This results in an inadequate separation of duties because a cashier could process an unauthorized tuition waiver and misappropriate tuition receipts. The college recorded approximately $73,240 in tuition waivers for the period of July 1, 1999, to December 31, 1999.

The college generates a tuition waiver report. However, there was no indication on the report we reviewed for fall semester of 1999 that any of the waivers had been independently verified to ensure their propriety. We also received conflicting information from college staff on whether or not tuition waivers were independently verified. In our prior audit report, we discussed the issue of documentation for administrative adjustments and recommended that the college have documentation for waivers and administrative adjustments.

Cashiers in the business office also process the applications for Alliss Grants. Students who receive Alliss Grants receive free credits and books for one class. The students must meet a number of eligibility requirements such as being out of school for seven years, and the student cannot be receiving financial aid. The college did not verify the student's qualifications for receiving the grant. The college stated that the student's signature is certification that they meet the requirements to be eligible for the Alliss Grant. The college waived approximately $24,000 in tuition related to Alliss Grants for the period of July 1, 1999, to December 31, 1999. The college should ensure that students meet the eligibility criteria for Alliss Grant tuition waivers.

Recommendations

- *The college should ensure that tuition waiver activity is independently reviewed and documented.*

- *The college should verify that the Alliss Grant applicants qualify for the grant.*

8. Minneapolis Community and Technical College needs to resolve discrepancies in itsaccounts receivable balances and write-off uncollectible accounts.

The college was unable to provide a comprehensive report of all students with outstanding accounts receivable balances or an aging schedule of receivables by term. We obtained reports that contained conflicting and incomplete information on the outstanding accounts receivable balances.

The college has a number of responsibilities related to accounts receivable including pursuing collection of delinquent accounts, placing holds on student registrations and transcripts if tuition has not been paid, writing-off uncollectible accounts, and reporting information on accounts receivable for both internal and external needs. The college lost the ability to produce an accurate accounts receivable aging schedule when it converted to the accounts receivable module of ISRS in July 1999. At the time of the conversion to ISRS, the college generated a report from the old system (CIS) identifying students with outstanding balances. The college entered these students with balances due related to school terms from 1997 through 1999 onto ISRS. However, we received conflicting information from the college as to whether or not accounts receivable balances from fiscal year 1995 and 1996 were entered onto ISRS.

The college produced two receivable reports for the first reporting period of fiscal year 2000 (term 20001). One of the reports did not have a grand total. Individual student balances on the two reports should have been the same but they were not. The college could not explain the differences between the two reports. Without knowing which report was accurate, we were unable to determine the total accounts receivable balance for the school term.

The college also could not provide us with an accurate balance of the accounts that had been sent to the Department of Revenue for revenue recapture or to the Minnesota Collection Enterprise (MCE). We received conflicting information from college officials as to which terms had been submitted to MCE. The college retained copies of letters notifying individual students that their account was being submitted to MCE for collection. However, the college could not provide us with the total number of students or amounts submitted to MCE. During the audit, the college obtained a report from the Department of Revenue indicating a receivable balance of over $2.8 million. Subsequently, the college received another report indicating the balance was only $386,830. The college contacted the Department of Revenue about the differences. College officials indicated to us that they knew the reports were not accurate, but were unsure of how they were going to resolve the differences.

The Department of Finance required all MnSCU colleges to submit quarterly information on accounts receivable balances. The college did not have any reports on file and was not sure who was doing this for them. We subsequently discovered that the MnSCU system office provided the information to the Department of Finance on behalf of the college. For the quarter ended March 31, 2000, the college had a recorded ending receivable balance of $884,949. However, the report showed a zero balance for accounts receivable over one year old. College staff indicated the report was not accurate.

Finally, the college did not write-off any accounts receivable balances where the likelihood of collectibility was remote. By not writing-off uncollectible accounts, the college's accounts receivable balances are overstated.

Recommendations

- *The college needs to resolve the discrepancies in the accounts receivable balances in ISRS and the aggregate accounts receivable balances submitted to the Department of Revenue and the Department of Finance.*

- *The college needs to generate and retain aggregate information on accounts receivable submitted to the Department of Revenue for collection.*

- *The college should:*
  -- *verify that outstanding accounts receivable for fiscal years 1995 and 1996 were entered into ISRS;*
  -- *develop a method of periodically generating an accounts receivable aging schedule;*
  -- *write-off uncollectible accounts on a regular basis and adjust the accounting records accordingly.*

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Chapter 4. Enterprise Fund Revenue: Bookstore and Other Receipts

Chapter Conclusions

Except for the following issues, Minneapolis Community and Technical College designed internal controls to provide reasonable assurance that bookstore and other receipts were complete, adequately safeguarded, and accurately recorded in the accounting records. The college did not measure the full cost associated with operating the bookstore. We also found that the college did not implement prior recommendations related to controlling parking cards or verifying commission revenue.

The college complied with finance-related legal provisions concerning Enterprise Fund activities with the following exceptions. As discussed in Chapter 2, Findings 3 and 4, bookstore and the automotive technology program cash receipts were not always deposited daily. As a result, the college did not timely record financial activity in MnSCU accounting.

Minneapolis Community and Technical College accounts for several activities within its Enterprise Activity Fund. These activities include the bookstore, parking ramp, and resale programs, such as automotive technology, cosmetology, barbershop, and culinary arts. The college also records vending and food service commissions as Enterprise Fund receipts. The college should account for these activities in a manner similar to a private business.

The bookstore sells textbooks, school supplies, clothing, gifts, and other items. Table 4-1 shows the bookstore's receipts and expenses for fiscal years 1997, 1998, and 1999. The bookstore accepts cash, checks, and credit card charges. It also establishes student charge accounts for students who receive financial assistance from third-party agencies.

Table 4 - 1
Bookstore Revenue and Expenses
by Fiscal Year

	FY 1997	FY1998	FY1999
Sales:			
New Books	$1,342,827	$1,455,830	$1,391,007
Used Books	136,415	208,858	165,567
School Supplies	184,727	118,259	71,933
Other Sales	112,943	244,420	274,374
Total Sales	$1,776,912	$2,027,367	$1,902,881
Cost of Goods Sold	$1,537,502	$1,390,692	$1,549,054
Operating Expenses:			
Personnel	$ 286,249	$ 315,568	$ 369,371
Non-Personnel	84,794	274,231	151,134
Total Expenses	$1,908,545	$1,980,491	$2,069,559
Profit (Loss)	$ (131,633)	$ 46,876	$ (166,678)

Notes: The financial information in this table does not include expenses such as rent and utilities. Therefore, true net income could not be measured.

Source: MnSCU Accounting System General Ledger Trial Balance as of May 25, 2000.

The bookstore uses a point of sale computer system called PRISM for recording sales. PRISM generates daily sales reports for each cash register. The reports summarize receipts by item and type of payment. The bookstore's daily cash reconciliation process includes counting cash receipts, balancing receipts to sales reports, and preparing the daily deposit and daily cash report. Bookstore staff lock receipts in a safe until they prepare the deposit. Once the daily cash report is ready, both the deposit and the cash report are delivered to the business office. The business office makes the bank deposit and posts bookstore receipts to MnSCU accounting from the daily cash reports.

The college generated other Auxiliary Enterprise Fund receipts of approximately $531,000 from parking ramp fees, commissions for food service and vending machines, and resale activities during fiscal year 1999. The College Services Division was responsible for the parking ramp and commission contracts. The business office was responsible for depositing funds from all of these programs and recording transactions in the MnSCU accounting system.

Audit Objectives and Methodology

We focused our audit of Enterprise Fund Revenue, including bookstore and parking ramp receipts, food service and vending commissions, and resale activities on the following objectives:

- Did the college's internal controls provide reasonable assurance that receipts were safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the college comply with the significant finance-related legal provisions concerning Enterprise Fund receipts?

To meet these objectives, we interviewed college staff responsible for these areas to gain an understanding of controls over the receipt collection, deposit, and recording processes. We also performed an analytical review of receipts and reviewed receipt transactions to determine if the college properly deposited and recorded auxiliary enterprise receipts.

The bookstore expenditures and inventory were tested as a part of the overall administrative expenditures for the college. See Chapter 6 for conclusions related to bookstore expenditures.

Conclusions

Except for the issues discussed below, the college designed internal controls to provide reasonable assurance that bookstore and other receipts were complete, adequately safeguarded, and accurately recorded in the accounting records. The college did not prepare complete financial statements to monitor bookstore activity. We discuss this in Finding 9. We also found that the college did not implement prior recommendations related to controlling parking cards and verifying commission revenue, as reported in Finding 10.

The college complied, in all material respects, with finance-related legal provisions concerning Enterprise Fund activities with the following exceptions. As discussed in Chapter 2, Findings 3 and 4, our review of the bookstore and the automotive technology program indicated that the college did not always deposit cash receipts daily. As a result, the college was not recording financial activity in MnSCU accounting in a timely manner.

9. The college did not measure the full cost of operating the bookstore.

The college did not measure certain costs incurred in operating the bookstore. For example, the college did not consider rent, utilities expenses, or indirect costs in reviewing the bookstore's financial operations. The bookstore is accounted for as an auxiliary enterprise and should account for operations in a manner similar to a private business. Measuring the full cost of operating the bookstore can also aid management in determining whether or not the correct markup is being applied to the cost of goods sold and if the bookstore is making a profit.

As part of the review of the bookstore financial operations, the bookstore should reconcile account balances from its PRISM accounting system to those recorded on the MnSCU accounting system. As of June 30, 1999, the bookstore identified an $11,000 difference in accounts receivable between the two systems. The bookstore could not determine the cause of the difference.

Recommendations

- *Minneapolis Community and Technical College should measure the full cost of operating the bookstore.*

- *The college should reconcile financial activity between the bookstore accounting system and MnSCU accounting and resolve any differences.*

10. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately control parking cards.

In our previous audit report, we recommended that the college should conduct periodic reconciliations of parking ramp revenue deposits to the statements of receipts generated from cash machines in the ramp. We also recommended that the college reconcile the log of parking cards activated and sold to the amount of revenue collected and deposited. While the college currently conducts periodic reconciliations of the cash receipts, the college did not inventory or reconcile the sale of parking cards. The college also did not verify that the cards being used agreed with the list of cards sold.

The parking ramp attendant activates the parking cards and records the serial numbers on a spreadsheet. The cards are valued at $20, $60, $70, and $110. The attendant sends activated cards to the bookstore where they are sold.

The bookstore keeps about 100 activated parking cards at the counter to be sold. The bookstore keeps the remainder of the activated parking cards in the safe. The sale of cards is summarized on the daily activity cash report. The bookstore forwards the cash to the business office and the sale information to the parking ramp. The parking attendant enters the list of cards sold in a computer system. The parking cards at the bookstore should be inventoried by denomination and reconciled to the dollar amount of parking cards sold and receipts deposited. In addition, the cards being used should be reconciled to the list of cards sold to determine if any unauthorized cards are being used. The types of reconciliations being recommended help ensure that the amounts collected and deposited are correct. Without these reconciliations, the college is subject to the risk that errors or irregularities would go undetected.

Recommendations

- *The college should maintain an inventory of parking ramp cards received at the bookstore.*

- *The college should reconcile the value of parking cards sold with the amount of receipts deposited.*

- *The college should reconcile the list of cards sold to the cards being used. The college should deactivate any cards being used that have not been sold.*

11. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not have procedures for determining the reasonableness of commission revenue.

In our prior audit report, we recommended that the college compare commission revenue with the contract percentages. We also recommended that commission checks be sent directly to the business office. The college now requires that all commission checks be sent to the business office. However, the college did not compare the amount of commissions received with the percentage specified in the contracts.

The college earned commission revenue from a variety of sources, including food service, vending machines, and telephones. The college contracts with vendors for each of these services. The contracts specify the percentage of net monthly sales the college is entitled to receive as commission. The vendors determine monthly sales and submit commission checks to the college.

We found discrepancies between the receipts and contract percentages in both the food service and vending machine contracts. We also noted that food service revenues recorded on the accounting system declined from $25,200 in fiscal year 1997 to only $2,117 in fiscal year 1999.. Furthermore, the college had not developed a basis for assessing the reasonableness of the sales reported by the vendors. Without a basis for estimating monthly sales, the college cannot reasonably anticipate commission revenue.

Recommendation

- *The college should compare commission revenue with the contracted percentages and review the reasonableness of sales reported by the vendors.*

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Chapter 5. Payroll Expenditures

Chapter Conclusions

The college has addressed many of the procedural control weaknesses and time reporting issues reported in our last audit report. Therefore, Minneapolis Community and Technical College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records, and complied with applicable legal provisions and management's authorization, except for the following issues:

- ***The college needs to improve the verification of payroll output reports to input data.***
- ***The college did not settle its payroll clearing account balances in a timely manner.***
- ***The college did not pursue collection of an employee overpayment of $2,883.***

For the transactions tested, the college complied with material finance-related legal provisions and bargaining agreements. However, leave balances for some of the Air Traffic Control Center faculty exceeded contract limitations.

Payroll represents the college's largest expenditure, totaling $24.7 million in fiscal year 1999. Business office staff reviewed, approved, and processed payroll data. Human resource staff at the college reviewed, approved, and processed personnel data. The college maintains staff assignments, pay rates, and bargaining agreement information in the State Colleges and Universities Personnel/Payroll System (SCUPPS). SCUPPS interfaces with the State Employee Management System (SEMA4) to generate paychecks or make direct deposits to college employees' bank accounts.

As of April 2000, Minneapolis Community and Technical College employed 315 full-time faculty and administrators, 200 part-time faculty, including customized training staff, and 247 other staff. The following organizations represent the college's employees:

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

Minneapolis Community and Technical College

Audit Objectives and Methodology

The primary objectives of our review of payroll expenditures were to answer the following questions:

- Did Minneapolis Community and Technical College design internal controls to 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 with significant finance-related legal provisions concerning payroll?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We interviewed employees regarding procedures used to process and monitor computer system security clearances. We analyzed employee compensation and tested pay rate increases for management authorization and compliance with bargaining unit agreements. In addition, for a sample of employees, we summarized and reviewed payroll transactions and compared them to appointment information. We also examined employee leave balances maintained by the college.

Conclusion

Minneapolis Community and Technical College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and complied with applicable legal provisions and management's authorization, except for the following issues. As discussed in Finding 12, the college needs to improve controls to verify payroll processing. In addition, the college did not settle its payroll clearing account in a timely manner, as discussed in Chapter 2, Finding 4.

For the transactions tested, the college complied with material finance-related legal provisions and bargaining agreements. We also report in Finding 13 that the college did not pursue recovery of a payroll overpayment.

12. Minneapolis Community and Technical College did not independently verify the accuracy of payroll reports and did not timely resolve payroll exceptions in the accounting system.

The college did not have someone independent of payroll processing responsibilities verify payroll output reports with payroll input data. The payroll clerk inputs the payroll hours from the timesheets into SEMA4. The clerk also verifies the payroll register against the timesheets. To improve the reliability of the verification process, someoneindependent of payroll processing should verify the payroll register.

The college also did not timely correct funding, posting, and other payroll/human resources errors. The college generated a report to identify these errors but did not reconcile the report to MnSCU accounting until the end of the year. The report is a management tool to help ensure that payroll transactions are posted to the correct cost centers and that sufficient funds exist in the individual accounts to support the payroll charges. If the college does not resolve discrepancies between the two systems in a timely manner, MnSCU accounting may not accurately reflect the correct payroll expenditures.

Independent verifications and reconciliations provide the college with assurance that the payroll input amounts agree with system output reports and help ensure the accuracy of the accounting data. Without these reconciliations, the college is subject to the risk that errors or irregularities may not be detected and resolved in a timely manner.

Recommendations

- *Minneapolis Community and Technical College should assign a person independent of the payroll process to verify that the payroll register agrees with input data each pay period.*

- *Minneapolis Community and Technical College should reconcile the payroll exception report biweekly to ensure that expenditures and financial reports are complete and accurate.*

13. PRIOR FINDING PARTIALLY RESOLVED: The college did not recover a salary overpayment made to an employee.

The college did not pursue the collection of an employee overpayment of $2,883. The college resolved overpayments with two other employees but told us that it had forgiven this debt. As reported in the prior audit report, the college and the Department of Finance both processed a severance payment to an employee for accumulated and unused vacation time. The employee was paid twice for 201.5 hours of unused vacation. The overpayment totaled $2,883 in wages and $221 in FICA benefits.

During this audit, the college could not provide us with documentation requesting repayment from the employee or indicating to the employee that the debt had been forgiven. The college also did not document any correspondence with the MnSCU system office or the Department of Finance regarding its decision to forgive the debt. We question the college’s decision to forgive the debt without being able to determine if the college attempted to collect the overpayment or went through the proper procedures to write-off the debt.

Recommendation

- *Minneapolis Community and Technical College should pursue collection of the $2,883 overpayment or work with the MnSCU system office, the Department of Finance, and the Attorney General to resolve this issue.*

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Chapter 6. Purchasing and Administrative Expenditures

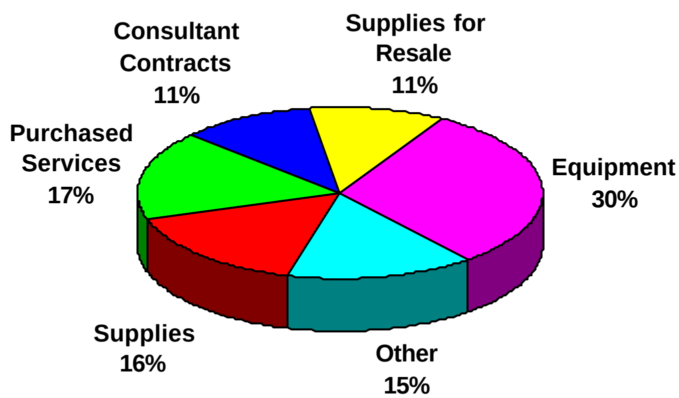
Chapter Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that operating expenditures were processed in accordance with management's authorization and properly recorded in MnSCU and MAPS accounting systems. However, we noted several areas of concern that the college should address to safeguard assets and ensure that expenditure transactions are properly recorded.

The college complied with material legal provisions for the items tested, with the following exceptions. The college exceeded contracted limits, incurred obligations prior to encumbering funds, and paid some transactions late.

We audited the college's expenditures for supplies, supplies for resale (bookstore items), purchased services, consultant contracts, and equipment. The college spent about $12.4 million for these activities during fiscal year 1999. The college's administrative and academic departments initiated purchase requests that the business office processed. The college used the MnSCU Purchase Control System, which encumbered available funds. The business office procured the goods and services, using MnSCU guidelines to solicit bids and select vendors. After the college received the goods or services, the business office matched receiving evidence to the original invoice and requisition before processing payment. Figure 7-1 shows a breakdown of the college's nonpayroll administrative expenditures in fiscal year 1999.

Figure 7-1
Nonpayroll Operating Expenditures
Fiscal Year 1999



Note: This chart does not include payroll, financial aid, or student activity expenditures.
Source: MnSCU Accounting.

Minneapolis Community and Technical College

Audit Objectives and Methodology

Our review of the college's supplies, supplies for resale, purchased services, consultant/contract, and equipment expenditures focused on the following questions:

- Did the college's internal controls provide reasonable assurance that operating expenditures were processed in accordance with management's authorization, accurately reported in the accounting records, and administered in compliance with applicable legal provisions?

- Did the college comply with applicable legal provisions governing expenditures?

To meet this objective, we interviewed Minneapolis Community and Technical College employees to gain an understanding of the controls over the material expenditure categories included in the audit scope. We reviewed a sample of expenditure transactions in each area to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if the college complied with material finance-related legal provisions.

Conclusion

Except as discussed in Finding 14, Minneapolis Community and Technical College's internal controls provided reasonable assurance that purchases and administrative expenditures were properly recorded in MnSCU accounting and, with respect to the items tested, complied with material legal provisions and management's authorization.

14. Minneapolis Community and Technical College needs to improve the processing and recording of operating expenditures.

The college incurred obligations prior to ensuring that sufficient funds were available and exceeded the amount of a contract. In addition, the college did not promptly pay all invoices and did not properly use the occurrence date field in MnSCU accounting.

As part of our testing of operating expenditures, we found that the college incurred obligations prior to encumbering funds. MnSCU Board Policies, Procedure 5.5.2, Purchasing, Part 5 requires that funds be encumbered prior to making an obligation. We found that the college had work completed on a project in January and February, but the requisition and purchase order were not completed until May. Another example involved a contract signed on June 17, yet the invoice was dated June 10, indicating that work was performed prior to the date the college completed the contract. Therefore, the college incurred the obligation before ensuring sufficient funds were available.

On another contract, we noted that total payments were $9,009. However, the total consideration per the contract was $6,000. We found no evidence of an amendment to the contract to support the additional payment.

Minneapolis Community and Technical College

Our testing of expenditures indicated that many payments were not made promptly. We found that in 24 of 87 transactions, or 27 percent, the college did not meet the 30-day payment requirement. We noted late payments that ranged from 1 day to 64 days past due. The highest incidence of late payments, 15 of 20, occurred with bookstore transactions. Minn. Stat. Section 16A.124, subd. 3 requires a state agency to pay the vendor within 30 days following the receipt of an invoice.

We also found that the college was not using the occurrence date field correctly in MnSCU accounting. The occurrence date field was designed to record the date the college incurs an obligation, which is the date the goods or services were received. This date is particularly important at the end of the year for financial reporting purposes. The college did not enter any date into the occurrence date field. Rather, the date defaulted to the date the college entered the transaction. The college should use the occurrence date field to provide accurate financial information.

Recommendation

- *Minneapolis Community and Technical College should improve procedures for processing and recording operating expenditures to ensure that the college:*

  -- *does not incur obligations prior to ensuring sufficient funds are available;*

  -- *adheres to contract terms and conditions and, if necessary, executes formal contract amendments;*

  -- *complies with prompt payment requirements; and*

  -- *uses the occurrence date field correctly by recording the date the goods or services were actually received.*

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Chapter 7. Student Financial Aid

Chapter Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. The controls also ensured that student financial aid transactions were properly recorded in the accounting system and that the college administered financial aid in accordance with applicable federal regulations, with the following exceptions. The college was not timely drawing federal cash. In addition, as discussed in Chapter 2, Finding 5, the college did not adequately restrict employee access to its financial aid systems.

For the items tested, the college complied with applicable federal requirements over receiving federal funds.

Minneapolis Community and Technical College participated in a variety of federal financial aid programs. Table 7-1 summarizes the college's program expenditures for fiscal year 2000 as of December 31, 1999.

Table 7-1
Federal Financial Aid Expenditures
Fiscal Year 2000 as of 12/31/99

CFDA Number	Program	Expenditures
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$ 105,055
84.032	Federal Family Education Loan (FFEL)	$ 2,036,638
84.033	Federal Work-Study (FWS)	$ 128,781
84.063	Federal Pell Grant	$ 1,942,774

Source: Crystal Report of fiscal year 2000 expenditures as of December 31,1999.

The college also participated in the Minnesota State Grant Program. The Minnesota Higher Education Services Office (MnHESO) funded the program. The college packages Minnesota state grants with federal financial aid. MnHESO establishes eligibility requirements for the state grant program and reimburses the college for eligible grant disbursements. As December 31, 2000, the college disbursed Minnesota state grants totaling approximately $561,000 for fiscal year 2000.

Minneapolis Community and Technical College packaged and awarded financial aid through the PCSAFE system during fiscal year 2000. The system provides interactive packaging, awarding, and disbursing of federal and state financial aid. The system automatically verifies applicant compliance with specific financial aid requirements, determines the financial need, and applies awards to students' accounts in the accounts receivable module.

The college and the MnSCU system had many problems with PCSAFE for the 1999-2000 school year, including corrupted data files. Several times the college had to close down the financial aid database and send it to the vendor for analysis. Also the college needed to request duplicate financial aid applications for six or seven individual students, with corrupted files, that were deleted from the system.

In addition to these problems, the interface between PCSAFE and MnSCU accounting did not post financial aid disbursements correctly. Also, the transmission of Pell data to the federal program administrators did not always work correctly. After significant effort, the college successfully resolved the problems associated with PCSAFE.

Beginning January 1, 2000, the college implemented a new computerized application to package and award financial aid for the 2000-2001 school year. The new financial aid module is one of the 22 modules that make up MnSCU's Integrated Student Record System (ISRS).

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to financial aid:

- Did Minneapolis Community and 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?

- 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?

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

To meet these objectives, we interviewed college employees from the financial aid and business offices. We tested and evaluated controls over compliance for determining student eligibility and awarding, packaging, and disbursing federal and state financial aid. In addition, we reviewed college records and tested controls to ensure compliance with regulations governing federal cash management.

Conclusions

The college's internal controls provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. Except for the issue discussed in Finding 15, Minneapolis Community and Technical College's controls also provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. In addition, as explained in Chapter 2, Finding 5, the college did not adequately restrict employee access to its financial aid systems.

For the items tested, the college complied with applicable federal requirements over receiving federal funds.

The college also needs to resolve a prior audit finding involving the disposition of $17,889 in outstanding checks in its federal financial aid account. In a prior audit report, we recommended that the college write-off the outstanding checks and determine whether the students or the U.S. Department of Education had a claim to the funds. At the conclusion of our audit, the college was working with the federal government to resolve the finding by returning the funds to the federal government. The college had not yet returned the funds, however.

15. Minneapolis Community and Technical College needs to improve cash management procedures over its federal financial aid programs.

Minneapolis Community and Technical College did not request federal financial aid funds in a timely manner. This resulted in the college using other funds to subsidize its federal financial aid expenditures. During spring semester 2000, the college did not draw any federal financial aid funds between January 21 and March 7, 2000. The college had a negative balance of $318,940 in its federal aid accounts on January 21 and disbursed an additional $251,674 of aid through March 6. As reported in Table 1-1, Note 5, the delays in requesting federal financial aid also resulted in deficit fund balances in the special revenue fund in fiscal years 1998 and 1999.

Recommendation

- *Minneapolis Community and Technical College needs to monitor federal financial aid activity and request federal cash in a timely manner to fund the federal aid expenditures and ensure that transactions are properly recorded in the accounting system.*

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Status of Prior Audit Issues
As of June 16, 2000

Most Recent Audits

College Audit

Legislative Audit Report 97-23, issued in May 1997, covered material activities of the college for the period July 1, 1995, through December 31, 1996. It included an overall assessment of the college's financial management and included detailed testing of bookstore revenues and expenditures, payroll, purchasing and administrative expenditures, tuition and fees, other revenue, and student financial aid. The report contained 13 findings and 22 recommendations. We repeated six of the findings in our current 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 and the Single Audit 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 contained three findings related specifically to Minneapolis Community and Technical College. We repeated the finding related to bank account reconciliations in Finding 2 of our current report. The other two findings addressed (1) procedural weaknesses in the administration of federal work study that (2) resulted in possible questioned costs. The college addressed the procedural weaknesses and the U.S. Department of Education determined that the college would not need to repay questioned costs resulting from a lack of employment verification documentation.

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 and the Single Audit 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 Minneapolis Community and 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 aid reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) 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. The process covers all colleges and universities within the MnSCU system.

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MINNEAPOLIS
COMMUNITY & TECHNICAL
COLLEGE

September 8, 2000

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Minneapolis Community and Technical College (MCTC) audit report for the period July 1, 1996 to December 31, 1999. We have carefully reviewed the findings and recommendations contained in the report. The college agrees with the auditor's findings. In particular, we agree with the auditor's finding that inadequate staffing levels and the organizational structure of the finance unit were the underlying causes of the financial difficulties described in the report. As a result, the college has begun a reorganization of the finance unit that will include new leadership, added resources and an aggressive plan to correct the issues identified in this audit. It must be noted, however, that MCTC like other MnSCU institutions will continue to confront the challenges presented by noncompetitive salaries, an antiquated state personnel system, and a shortage of skilled workers in the Metro area.

While the report acknowledges some of the improvements made by the college, we believe it understates the progress we have made to strengthen the financial condition of the institution. This includes operating within available resources after a period of deficit spending, developing a significant budget reserve, building a resource pool to fund impending debt service, and correcting significant issues in the operation of the foundation and the customized training unit.

The college's specific responses to your findings are as follows:

1501 HENNEPIN AVE MINNEAPOLIS, MN 55403 612-341-7000 1-800-247-0911 FAX 612-359-1357

1. **PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College needs to improve its overall financial management.**

   The college agrees with the finding of the auditor.

   MCTC is currently reorganizing the accounting and business offices.

   Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

2. **Minneapolis Community and Technical College did not adequately control local bank account activity.**

   The college agrees with the finding of the auditor.

   The college has hired and trained an individual whose sole responsibility it is to do monthly reconciliation. The college has modified its collateral agreement with the bank. The college is earning interest on its accounts as of July 21, 2000. The college closed the two inactive bank accounts on June 29, 2000.

   Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
   Bonnie Nogabahie, Accountant

3. **PRIOR FINDING NOT RESOLVED: The college did not deposit all receipts in excess of $250 daily.**

   The college agrees with the finding of the auditor.

   The college will promptly deposit all receipts over $250 on a daily basis.

   Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
   Karen Hernandez, Director of Auxiliary Services

4. **PRIOR FINDING NOT RESOLVED: The college did not record financial transactions in the MnSCU accounting system in a timely manner.**

   The college agrees with the finding of the auditor.

   The college hired a staff person to assume this responsibility. The college also renewed the agreement with MnSCU to complete the MAPS to MNSCU reconciliation for FY2001. The college will transfer the function from MnSCU to college personnel over the fiscal year. The Vice President will monitor the progress of the adjustments monthly.

   Responsible Staff: Susan Nemitz, Vice President of Finance and Operation
   Bonnie Nogabahie, Accountant

5. **PRIOR FINDING NOT RESOLVED: The college did not monitor access to its computer systems.**

The college agrees with the finding of the auditor.

The college will establish a formal procedure to periodically review user access and security to network and business systems by December 1, 2000. The Director of Accounting and Business Services will review access quarterly. The Vice President of Finance and Operations will independently review access periodically.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

6. **PRIOR FINDING NOT RESOLVED: The college had not completed a physical inventory of college assets and property in many years.**

The college agrees with the finding of the auditor.

The college has recorded new assets and reconciled accounting and equipment modules since 1997. The college has not recorded former technical college assets from the time period prior to merger. The college will hire a contractor to assist with this project. The college will remove old assets from the inventory on an ongoing basis.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
Jennifer Faricy, Buyer II

7. **PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately document its monitoring of tuition waivers.**

The college agrees with the finding of the auditor.

MCTC does have a detect control procedure for waivers. The current director reviews a report of every waiver granted by the cashier periodically. The director will sign and date this report after each review.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

8. **Minneapolis Community and Technical College needs to resolve discrepancies in its accounts receivable balances.**

The college agrees with the finding of the auditor.

The college has a process for submitting receivables for collection and putting students' accounts on hold. The college will work with the Department of Revenue and MnSCU to resolve discrepancies in their receivable reporting systems.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

9. **The college did not measure the full cost of operating the bookstore.**

The college agrees with the finding of the auditor.

The college will have a plan for charging indirect cost by December 1, 2000.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
Karen Hernandez, Director of Auxiliary Services

10. **PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately control parking cards.**

The college agrees with the finding of the auditor.

The college has implemented a control procedure to address this finding as of September 1, 2000.

Responsible Staff: Karen Hernandez, Director of Auxiliary Services

11. **PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not have procedures for determining the reasonableness of commission revenue.**

The college agrees with the finding of the auditor.

The college currently reviews commission revenue per the terms of the contract as of February 1, 2000. The college has contracted with an independent CPA firm to do annual audits on the food service and childcare contracts over the last three years.

Responsible Staff: Karen Hernandez, Director of Auxiliary Services

12. **Minneapolis Community and Technical College did not independently verify the accuracy of payroll reports and did not timely response payroll exceptions in the accounting system.**

The college agrees with the finding of the auditor.

An employee will spot-check that the payroll register agrees with input data. An employee has been hired to reconcile the payroll exception report.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
Bonnie Nogabahie, Accountant

13. **PRIOR FINDING PARTIALLY RESOLVED: The college did not recover a salary overpayment made to an employee.**

The college agrees with the finding of the auditor.

Minneapolis Community and Technical College will pursue collection of the $2,883 overpayment or work with the MnSCU system office, the Department of Finance, and the Attorney General to resolve this issue.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

14. **Minneapolis Community and Technical College needs to improve the processing and recording of operating expenditures.**

The college agrees with the finding of the auditor.

The college will take measures to improve the processing and recording of operating expenditures.

The MCTC Bookstore, and the bookstore industry in general, allow the return of unsold merchandise to the vendor prior to final payment. Modification of this practice would mean significant state resources would be "tied up" in vendor credits.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations
Karen Hernandez, Director of Auxiliary Services

15. **Minneapolis Community and Technical College needs to improve cash management procedures over its federal financial aid programs.**

The college agrees with the finding of the auditor.

The college will review the process and documentation of federal cash drawdowns to ensure timely transactions.

Responsible Staff: Susan Nemitz, Interim Vice President of Finance and Operations

Please accept my thanks for the exemplary manner in which your staff have conducted the audit. Your report will be invaluable to our efforts to improve the financial management of the college.

Sincerely,

/s/ Phillip L. Davis

Phillip L. Davis
President