OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota State College – Southeast Technical

Three Fiscal Years Ended June 30, 2000

JULY 6, 2001 **01-36**

Financial Audit Division

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Mr. James J. Johnson, President
Minnesota State College-Southeast Technical

We have audited selected areas of Minnesota State College-Southeast Technical for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included financial management, tuition and fees, customized training and fee-based programs, employee payroll, administrative expenditures, state grants, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001.

We conducted our audit in accordance with *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 Minnesota State College-Southeast Technical 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 Minnesota State College-Southeast Technical, 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 July 6, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 13, 2001

Report Signed On: July 2, 2001

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Audit Participation

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

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Jeanine Leifeld, CPA, CISA	Audit Manager
Ken Vandermeer, CPA, CFE	Audit Director
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Exit Conference

We discussed the findings and recommendations with the following representatives of Minnesota State College-Southeast Technical and the MnSCU system office at the exit conference held on June 8, 2001:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Deb Winter	Director, Campus Assistance
John Asmussen	Executive Director, Internal Auditing
Marilyn Hansmann	Regional Audit Coordinator
Minnesota State College – Southeast Technical:	
James Johnson	President
Blake Pickart	Vice President, Finance and Administration

Report Summary

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

Key Findings and Recommendations:

- The college did not properly restrict access to its computerized business systems. It should separate key functions for cashiering, accounts receivable, purchasing, accounts payable, payroll, and personnel. (Finding 1, page 7)
- The college did not enter certain transactions and adjustments into the accounting system on a timely basis. In addition, it did not request reimbursement of post secondary education option funds promptly. The college should process transactions in a timely manner. (Finding 2, page 8)
- The college did not have signed, written contracts with certain outside parties, including its food service, daycare, and college foundation. It should negotiate and sign written contracts prior to the date it begins receiving services. (Finding 3, page 9)
- The college did not establish sufficient controls over certain resale receipts. It should ensure proper sales documentation exists and is independently verified for each resale program. (Finding 4, page 13)
- The college voided routine transactions in the bookstore. To avoid closing out its bookstore cash register, the Winona bookstore cashier sometimes voided out check transactions from the register. The college should either discontinue this practice or establish sufficient controls over the process. (Finding 5, page 13)
- The college did not document the date it received goods, in order to enter the proper occurrence dates into the accounting system. The college should properly record occurrence dates and keep incoming goods in a secured location. (Finding 6, page 16)

Minnesota State College-Southeast Technical is part of the Minnesota State Colleges and Universities (MnSCU) system. This **financial-related audit report** focused on financial management, tuition and fees, customized training and fee-based programs, employee payroll, administrative expenditures, state grants, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001.

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Chapter 1. Introduction

Minnesota State College-Southeast Technical is part of the Minnesota State Colleges and Universities (MnSCU) system. The college is one institution with two campuses, located in Red Wing and in Winona. The college also has an aviation center located in Winona. Mr. James J. Johnson has been the president of the college since July 1, 1997.

The college offers more than 70 degrees, certificates, and diplomas. The college also offers customized educational options on each of its campuses in the areas of business, trade, health, and marketing. The aviation center was added in 1992 to provide technical career opportunities in the aviation industry. The full-time equivalent student enrollment in fiscal year 2000 was 592 for the Winona campus, 402 for the Red Wing campus, and 152 for the aviation center.

The college finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the system-wide state appropriation to the college based on a formula. The college is responsible for collecting tuition and fees from students. The total of appropriations and dedicated receipts establishes the primary spending authority for the college. Table 1-1 provides a summary of the college's sources and uses of funds for the fiscal year ended June 30, 2000.

The college is affiliated with the Minnesota State College-Southeast Technical Foundation, an autonomous, non-profit organization. The foundation offers scholarships and funds for other activities that benefit the educational mission of the college.

Table 1-1
Minnesota State College-Southeast Technical
Sources and Uses of Funds [1]
Fiscal Year Ended June 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund
Revenues:			
State Appropriations	$6,708,430	$ 0	$ 0
Tuition and Fees	2,903,932	60,527	54,596
Sales and Services [3]	281,395	1,515	76,963
Federal Grants	0	1,414,676	0
State Grants	322,780	461,916	0
Private Grants	86,225	1,000	0
Other Income	25,990	610	8,385
Total Revenues	$10,328,752	$1,940,244	$139,944
Expenditures/Expenses:			
Salaries	$ 6,864,206	$ 394,712	$ 69,896
Purchased Services	1,766,479	52,670	7,308
Utilities	381,545	1,584	307
Contract/Consultants	145,715	148,689	0
Supplies	877,091	46,936	5,029
Financial Aid	15,883	1,176,553	0
Capital Expenditures	641,367	18,846	0
Debt Service – Interest	178,064	0	9,394
Other	112,937	41,072	0
Total Expenditures/Expenses	$10,983,288	$1,881,063	$ 91,934
Transfers:			
Transfers-In [4]	$ 489,384	$ 4,883	$ 19,147
Transfers-Out [4]	485,180	0	0
Net Transfers	$ 4,204	$ 4,883	$ 19,147
Change in Fund Balance	($ 650,332)	$ 64,064	$ 67,157
Beginning Fund Balance	$ 3,056,073	$ 71,730	$360,351
Ending Fund Balance [2]	$ 2,405,741	$ 135,794	$427,508

Note (1): This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from generally accepted accounting principles in the following ways: 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 criterion 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. Compensated absences as of June 30, 2000, were approximately $900,000.

Note (2): General Fund balance includes General Fund Reserve of $625,000 and a restricted fund balance of $565,000.

Note (3): Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and Services-Gross	$404,094
Cost of Goods Sold	327,131
Sales and Services-Net	$ 76,963

Note (4): The college provided loans from bookstore funds to certain grant programs, including the Minnesota Job Skills Partnership and the School-to-Work Partnership. These programs operate on a reimbursement basis. The college transferred funds to provide cash flow assistance until the grant programs received reimbursement. It recorded the transactions as transfers, rather than as interfund loans, on MnSCU accounting. We adjusted the loan activity out of the transfer amounts shown.
As discussed in finding 2, the college did not reimburse its bookstores $19,147 for fiscal year 2000 post secondary education option funds until March 2001. We adjusted transfers out of the General Fund and into the Enterprise Fund to reflect the effects of this transfer.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

In several areas, the college did not properly restrict access to computerized business systems. A system office contractor's employees also had excessive ability to update the college's personnel records. In addition, the college did not process certain accounting transactions and adjustments in a timely manner.

The college operated within available financial resources. However, the college did not comply with legal provisions in two areas. It did not always have sufficient bank collateral. It also did not have signed contracts with certain outside parties, including the college foundation.

As required by the MnSCU system office, the college used the MnSCU accounting system to initiate transactions and record all its financial activity, including money maintained within the state treasury and local activity accounts maintained outside the state treasury. MnSCU accounting interfaces with the state's accounting system (MAPS) to generate warrants from the state treasury for certain activities. The college administered certain funds, such as financial aid, agency accounts, and enterprise activities in local bank accounts. The local bank account also served as the college's state depository and link to the state treasury.

Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

- Did the college's internal controls provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

- Did the college maintain 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 personnel to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the program areas we audited. We also gained an understanding of the management controls in place over state treasury and local bank activities, such as budget monitoring and reconciliations. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities.

We reviewed the college's process to record, track, and safeguard its fixed assets and bookstore consumable inventory. We reviewed billings and collections for state grant revenue. We also reviewed local bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Finally, we reviewed security privileges to determine whether the college adequately limited access to its computerized business systems.

Conclusions

In several areas, the college did not properly restrict access to its computerized business systems. A system office contractor's employees also had excessive ability to update the college's personnel data. The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions, including Southeast Technical. To perform its contractual duties, the contractor needed access to certain retirement data on MnSCU's personnel and payroll system. The security clearance granted by the MnSCU system office provided broader access than needed, including the ability to create an employee, modify personnel data, and update faculty assignments and salaries. As a result of this access, the college may be vulnerable to unauthorized transactions.

At times, the college's bank balance exceeded the amount of insurance and collateral pledged by the bank. The Federal Deposit Insurance Corporation (FDIC) provided the college with $100,000 of insurance and, during the audit period, the bank pledged additional collateral of approximately $500,000. During the audit period, the college's bank statements showed that bank balances approached approximately $1 million during peak periods. The college's cash in the bank exceeded the amount of collateral pledged for up to a week at a time, primarily during tuition collection periods. The college increased its collateral levels in fiscal year 2001.

The college operated within available financial resources. However, the college did not process certain accounting transactions and adjustments in a timely manner. It also did not have signed contracts with certain outside parties, including the college foundation.

The Red Wing campus bookstore operations for fiscal year 2000 resulted in a loss of $12,237. The college did not measure its fiscal year 2000 financial results until March 2001 when it prepared the fiscal year 2000 financial statements. We recommended in the last audit that the college prepare bookstore financial statements. Although the college has entered the necessary transactions into MnSCU accounting to facilitate financial reporting for its bookstores, we believe that the college should prepare and analyze the bookstore financial statements on a more timely basis.

1. PRIOR FINDING PARTIALLY RESOLVED: The college did not properly restrict access to computerized business systems.

The college did not separate or sufficiently restrict computer access privileges in the areas of cashiering, accounts receivable, purchasing, accounts payable, payroll, and personnel. Our review of the separation of incompatible duties and computer access privileges disclosed the following concerns:

Cashiering and Accounts Receivable

- Three college cashiers have full access to the computer system's cashiering, accounts receivable, and tuition waiver functions. Ideally, individuals who perform cashiering functions should not have the ability to adjust student accounts receivable records or process waivers. If the college needs to allow cashiers this access for backup purposes, it should establish mitigating controls, such as independent review of the cashiers' work, to alleviate the risk caused by the incompatible access.

- Thirteen college employees have the ability to process tuition waiver transactions. They include six people in the business office, three people in the financial aid office, two in the customized training department, and two people in the bookstore. One person in the MnSCU system office also has access to this function. Access to high-risk transactions such as tuition waivers should be limited to provide control over unauthorized transactions.

- Nine college employees have access to enter negative receipt transactions. They included five people in the business office, two people in the financial aid office, and two people in the bookstore. Employees with this security group can reverse receipt transactions by posting a negative transaction in a receipts screen, rather than by using a separate receipts correction screen. Since a negative receipt transaction does not leave a good audit trail, its use should be limited.

- The former financial aid director has access to financial aid functions, as well as high level 'head cashier' and 'department head' update access. Since this individual does not perform any cashier or financial aid duties, his update access should be eliminated or restricted to 'view only' access.

Purchasing and Accounts Payable

- The Winona business office staff have incompatible system access to both the accounts payable function and the purchasing function. Typically, individuals who do purchasing should not have access to adjust accounts payable records, or to authorize purchases and returns. Staff with access to both functions could potentially process unauthorized purchases and initiate payment for unallowable items. If the college needs to allow this access for backup purposes, it should establish mitigating controls, such as independent review of purchases and payments, to alleviate the risk caused by the incompatible access.

- The Red Wing business office staff also has incompatible system access to both the accounts payable function and the purchasing function. Although a Red Wing employee performs purchasing duties, the Winona campus currently performs the accounts payable duties. Because of this, the college should reassess the need for Red Wing staff to have accounts payable access and should provide documented supervisory review of the Red Wing purchases as a mitigating control.

- The accounting clerk involved with bank reconciliations also has system access to accounts payable and purchasing. The college could increase controls by restricting the clerk's system access to 'view only' rather than update access for accounts payable and purchasing.

Payroll and Personnel

- The business manager has incompatible access to the college's payroll and human resources functions. Ideally, a person who can create employees and initiate work assignments should not have the ability to process biweekly payroll transactions. Since the business manager does not routinely perform these duties, even as a backup, the college should reconsider allowing the business manager access to these systems.

Recommendations

- *The college should separate key system access for cashiering, accounts receivable, purchasing, accounts payable, personnel, and payroll. The college should limit access to 'view only' whenever possible. When duties cannot be adequately segregated, the college should initiate and document mitigating controls such as supervisory review and authorization.*

- *The college should limit access to tuition waivers and negative receipt transactions to essential personnel only. Because of their risky nature, the college should monitor and review the use of these transactions.*

2. The college did not process accounting transactions or prepare certain adjustments in a timely manner.

The college did not enter certain transactions and adjustments into the accounting system on a timely basis. In addition, it did not request reimbursement of post secondary education option funds promptly.

Our review of the MAPS to MnSCU account reconciliations identified several types of accounting transactions that were not timely processed by the college. For instance, the college did not enter its fiscal years 1998, 1999, and 2000 state appropriations into the MnSCU accounting system until nine months after the start of each fiscal year. The college also did not post some local bank account deposits to the MnSCU accounting system for 12 to 18 months.

The college had not entered several other adjusting entries identified through the reconciliation process dating back to fiscal year 1999. Finally, the college did not reimburse its bookstores $19,147 for fiscal year 2000 post secondary education option funds until March 2001.

By not promptly entering original and correcting transactions, the college may rely on inaccurate data for financial decisions or financial reporting. Since the MnSCU system office prepares financial statements from the accounting records, delays in posting entries may result in inaccurate reporting.

Recommendation

- *The college should process accounting transactions and prepare adjustments in a timely manner.*

3. The college did not have signed, written contracts with certain outside parties.

The college did not have fully executed, written contracts in fiscal year 2001 for its food service, daycare, and college foundation. The college established written contracts for fiscal year 2000 for these services, but did not formally renew the contracts in writing prior to the end of the original contract period, even though the services continued to occur. The college also could not locate contracts or bid documentation for its advertising expenditures. Payments to three vendors for advertising totaled over $226,000 for fiscal year 2000. Minn. Stat. Section 471.345 requires that a contract be signed prior to the date services are performed. Without a written contract, the college may experience difficulty in enforcing various legal obligations established within the contract.

Recommendation

- *The college should negotiate and sign written contracts prior to the date it begins receiving services.*

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Chapter 3. Cashier Function

Chapter Conclusions

The college had several internal control weaknesses in the cashiering area, including the following:

- ***The college did not properly restrict the cashiers' access to computerized business systems (see Finding 1).***
- ***The college did not establish sufficient controls over certain resale areas, such auto body repair.***
- ***Winona campus staff voided routine transactions from the bookstore cash register.***

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning receipts.

The college collects receipts from a variety of sources, including tuition, customized training activities, resale programs, and bookstore sales. The college collects most of its receipts at the campus bookstores.

Tuition Receipts

For the 1999-2000 academic year, the college collected tuition from most students at the Minnesota resident rate of $67.90 per semester credit. The State of Minnesota has reciprocity agreements with several states that allow students from those states to attend MnSCU institutions at either the resident rate or a higher but still discounted rate. Students from Wisconsin, North Dakota, and South Dakota could attend the college at the resident rate of 67.90 per semester credit. Students from Kansas, Michigan, Missouri, and Nebraska could attend the college at a rate of $101.85 per semester credit. Students from all other states and foreign countries were charged the nonresident rate of $135.80 per semester credit. The college charged all students a variety of standard fees that totaled $8.00 per semester credit for 1999-2000. The college collected approximately $2.5 million in tuition and fees during fiscal year 2000. The college used the MnSCU Integrated Student Records System (ISRS) accounts receivable module to register, bill, and collect tuition payments from students.

Customized Training Receipts

The college also collected revenue from customized training, which included non-credit continuing education and contract training courses. The college designed continuing education courses for the public, and developed training courses to meet the educational needs of specific businesses or industries. The college collected revenue for non-credit courses, including continuing education courses and contract training courses. The college used the MnSCU Integrated Student Records System (ISRS) accounts receivable module to register, bill, and collect payments from students or businesses for customized training programs. The college collected approximately $375,000 in customized training receipts during fiscal year 2000.

Resale Receipts

Several of the college's programs produce saleable goods and services in the course of educating and training students. These programs include carpentry, cosmetology, string instrument repair, band instrument repair, auto body repair, and auto mechanical repair. The college calls revenue from these programs 'resale' receipts. These programs provide students with an opportunity to gain work experience in their field of study as they complete their coursework. The college uses proceeds from the public sale of goods and services to defray the program's costs of raw materials and operations. For fiscal year 2000, the college recorded approximately $281,000 in resale receipts.

Bookstore Receipts

The college has bookstores at both the Winona and Red Wing campuses. Each bookstore sells textbooks, school supplies, clothing, gifts, and other items. Both locations also perform other cashier duties for the tuition, customized training, and resale receipt processes. The Winona bookstore has two staff positions and the Red Wing campus has one position. The bookstores combined net income was $34,401 in 1998 and $32,219 in 1999, and $8,784 in fiscal year 2000.

Audit Objectives and Methodology

Our review of the cashiering function focused on the following questions:

- Did the college'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 college comply, in all material respects, with the significant finance-related legal provisions concerning revenues?

To meet these objectives, we interviewed college staff responsible for tuition, customized training, resale, and bookstore receipts to gain an understanding of controls over the receipt collection, deposit, and recording processes. We also performed an analytical review of receipts and tested a sample of receipt transactions to determine whether the college properly deposited funds and accurately recorded its receipts in the accounting system.

Conclusions

The college had several internal control weaknesses in the cashiering area. It did not properly restrict the cashiers' access to computerized business systems (see Finding 1) and did not establish sufficient controls over certain resale areas. The Winona campus staff also voided routine transactions from the bookstore cash register. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning receipts.

4. The college did not establish sufficient controls over certain resale receipts.

The college did not provide sufficient oversight for some of its resale programs, including auto body repair. The resale programs are unique because the receipts come from a variety of sales to the public. The college handles each resale program differently. In some cases, receipts are collected centrally by the campus cashier; while in other cases, they are collected by program staff. For example, in the auto body repair program on the Winona campus, program staff determines the price to be charged for the repair, collects from the customer, and forwards the receipts to the cashier for deposit.

The college should review its controls over resale program receipts on both campuses. Campus cashiers should collect the receipts whenever feasible. Each resale program should establish sales documentation or estimates whenever possible and forward them to the business office. Someone independent of the sales and cash receipts process should compare the sales documentation to the subsequent deposit records to provide reasonable assurance that all resale receipts have been properly deposited.

Recommendation

- *The college should ensure proper sales documentation exists and is independently verified for each resale program.*

5. The college voided routine transactions in the bookstore.

To avoid closing out its bookstore cash register, the Winona bookstore cashier sometimes voided out check transactions from the bookstore cash register. The cashier then re-entered these checks into another cash register so that they could be deposited. The process of voiding transactions is typically reserved for error corrections. Voided transactions should be carefully reviewed, since they represent a decrease in total cash in the register. The Winona cashier has substantially increased the number of voids entered into the Winona bookstore cash register by voiding routine transactions. Because of this, the level of overall review of voided transactions may be compromised and the potential that errors and irregularities could occur without detection increased. If the college continues this practice, it should ensure that a reconciliation occurs between the amounts voided from the bookstore register and the amounts reentered for deposit.

Recommendation

- *The college should either discontinue its practice of voiding routine transactions out of its Winona bookstore cash register or establish sufficient controls over the process.*

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Chapter 4. Administrative Expenditures

Chapter Conclusions

The college did not properly restrict access to purchasing and payment duties within its computerized business systems (see Finding 1). In addition, the college did not enter the proper occurrence dates in the accounting system to record the date of services performed or delivery date of goods received.

We audited selected college administrative expenditures, including supplies for resale, equipment, materials, consulting services, and purchased services. The college spent approximately $4 million for these activities during fiscal year 2000 as noted in Table 4-1.

Table 4-1

Minnesota State College-Southeast Technical
Selected Administrative Expenditures
Fiscal Year Ended June 30, 2000

	Total
Purchased Services	$1,371,000
Consulting Services	671,000
Materials	666,000
Equipment	660,000
Supplies for Resale	590,000

Source: MnSCU Accounting System.

To purchase goods or services, college faculty or employees submit an authorized purchase requisition to the business office. The business office verifies that funds are available in the appropriate cost center for the purchase, encumber the funds, create a purchase order, and send it to the vendor. The business office also receives the invoices and makes payments. The business office does not make payment until confirmation of receipt is made. Staff doing business away from the college use field purchase orders to accommodate the immediate need for supplies.

Audit Objectives and Methodology

We focused our review of administrative expenditures on the following questions:

- Did the college's internal controls provide reasonable assurance that administrative 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 the significant finance-related legal provisions concerning administrative expenditures?

To address these questions, we obtained an understanding of the internal control structure over the expenditure process. We reviewed controls and tested transactions related to the acquisition of equipment, materials, supplies, and services. We tested transactions to determine whether the college properly procured and documented disbursement transactions, paid the correct amount, recorded transactions in MnSCU accounting, and complied with applicable MnSCU policies.

Conclusions

The college did not properly restrict access to purchasing and payment duties within its computerized business systems (see Finding 1). As discussed below, the college did not enter correct occurrence dates in the accounting system to record the date of services performed or delivery date of goods received. It also did not keep incoming goods received in a safe location.

6. The college incorrectly coded occurrence dates in the accounting system and did not keep incoming deliveries in a secured location.

College personnel did not routinely submit packing slips or receiving reports to the business office to show receipt of goods. The college also did not enter the proper occurrence dates in the accounting system to record the date of services performed or delivery date of goods received. In addition, the Winona campus did not keep deliveries in a properly secured location.

The college business office did not always receive packing slips or other receiving documentation. This documentation is important because it provides evidence that the goods were received and provides the delivery date, which is the date the college incurred the liability for the goods or services. Fourteen of 22 supplies transactions we tested did not have receiving documentation attached. For 21 of the 22 transactions, the college had recorded the invoice date as the occurrence date instead of the date services were performed or goods delivered.

The college also did not keep goods received in a safe location. The Winona business office verified goods delivered to the campus. Most goods were kept in the hallway outside of the business office until they were forwarded to the proper departments. The hallway is located near the main student activity center and is easily accessible. To avoid theft or loss, the college should adequately secure incoming goods.

Recommendations

- *The college should prepare packing slips or receiving reports that record the proper occurrence date and evidence of approval to pay.*

- *The college should keep incoming goods received in a secured location.*

Chapter 5. Employee Payroll Expenditures

Chapter Conclusions

Except for the computer system access issue discussed in Finding 1, the college's internal controls provided reasonable assurance that it accurately reported payroll expenditures in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the transactions tested, the college complied with material finance-related legal provisions and bargaining agreements.

Payroll is the college's largest operating cost, annually totaling about $7.1 million or 45 percent of total expenditures. During fiscal year 2000, the college employed 90 full-time and part-time faculty, 93 classified and unclassified staff, and 26 other support staff. The college employees are covered by the following compensation plans:

- 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 Nurses Association (MNA)

The college's human resource staff resides at the Red Wing campus. The human resource section maintains personnel and payroll documentation such as staff appointments, assignments in the State Colleges and Universities Personnel/Payroll System (SCUPPS), and employee timesheets and leave slips.

Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and that it complied with applicable legal provisions and management's authorization?

- For the items tested, did the college comply with the 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 monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested payrate increases for management's authorization and compliance with bargaining unit agreements. We also summarized, reviewed, and compared payroll transactions to appointments for a sample of employees.

Conclusions

Except for the computer system access issue discussed in Finding 1, the college's internal controls provided reasonable assurance that it accurately reported payroll expenditures in the accounting records and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions.

Chapter 6. Student Financial Aid

Chapter Conclusions

The 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 state and federal regulations. The college's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

The college participates 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 (SEOG) Program (CFDA #84.007)
- Minnesota State Grant Program

Audit Objectives and Methodology

We focused our review of federal and state financial aid on the following objectives:

- Did the 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 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?

We reviewed and tested controls over compliance with federal and state legal requirements for packaging, awarding, and disbursing student financial aid for the 2000-2001 academic year. We also reviewed and tested the college's federal cash management procedures. Eligibility for student financial aid programs is verified on an annual basis as part of the Single Audit of the state's federal expenditures and is not included in the scope of this audit.

Conclusions

The 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 state and federal regulations. The college's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

Status of Prior Audit Issues
As of April 13, 2001

Most Recent Audits

Legislative Audit Report 98-35, issued in May 1998, covered the college's material activities and programs, including: general financial management, tuition and fees, customized training and fee based programs, employee payroll, administrative expenditures, bookstore activities, federal and state financial aid, and the college's relationship with its affiliated foundations. The report covered the period July 1, 1995, through June 30, 1997, and contained 15 findings. The college substantially implemented thirteen of the findings.

In our last audit, we reported that the college did not properly manage its accounts receivable. The college has substantially resolved the finding. It actively pursued overdue accounts during the current audit period. However, it has not written off any accounts receivable balances pending a write-off policy and procedure by the system office.

In our last audit, we also reported that the college had used Carl Perkins funds for unallowable expenditures. The college is continuing to work with the federal government to resolve any potential repayments relating to that finding.

The remaining unresolved issue, relating to system security and access to computerized business systems, is addressed in the current audit report in finding 1.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, **Legislative Audit Report 00-11,** issued in March 2000, and **Legislative Audit Report 99-19,** issued in March 1999, each examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the years ended June 30, 2000, 1999, and 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 Minnesota State College-Southeast Technical.

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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Minnesota State College
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Education to enhance your future. Guaranteed!

26 June, 2001

Mr. James R. Noble, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Noble:

I want to thank you for your professional and comprehensive audit of our college. My staff and I were pleased that your audit helped us to uncover and address various issues relating to the financial management of this college. It is important for any organization, at various times, to have an outside review of its processes and operations. The following responses to your audit findings are what this college intends to put in place to address audit concerns.

AUDIT FINDINGS

Financial Management:

1. The college did not properly restrict access to computerized business systems.

Assigned to resolve:	Blake Pickart, VP Finance and Administration Nate Emerson, Director of Institutional Research Bonnie Lutz, Accounting Supervisor Anne Dahlen, Financial Aid Director Deanna Voth, Human Resource Director
Resolution date:	September 1, 2001
Resolution:	VP and Supervisors will review all job descriptions and MnSCU security access to determine appropriateness. Security access and job descriptions will be modified as appropriate to provide the proper separation of duties. Where proper separation cannot be obtained through security access modification, mitigating controls will be put in place. Annually this group will review the security access into the accounting and personnel systems for all users.

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2. The college did not process accounting transactions or prepare certain adjustments in a timely manner.

Assigned to resolve:	Blake Pickart, VP Finance and Administration Bonnie Lutz, Accounting Supervisor
Resolution date:	September 1, 2001
Resolution:	The part of the finding relating to entering the appropriation into the MnSCU system has been resolved in fiscal year 2001. All appropriations and adjustments have been entered into the MnSCU accounting system promptly. The part of the finding relating to reconciling items will be resolved by involving System Office staff in the solution.

3. The college did not have signed written contracts with certain outside parties.

Assigned to resolve:	Blake Pickart, VP Finance and Administration Bonnie Lutz, Accounting Supervisor
Resolution date:	September 1, 2001
Resolution:	The contract with the college's foundation will be renewed every three years as permitted with completion no later than June 30th of the year prior to the contract end date. All other service contracts will be written to allow for renewal for up to five years or to allow either party to give 60 day written notice prior to the end of the year if contract cancellation if desired. Service contracts will be reviewed annually with completion no later than June 30th of any year.

Cashier Function:

4. The college did not establish sufficient controls over certain resale receipts.

Assigned to resolve:	Blake Pickart, VP Finance and Administration Ron Matuska, VP Academic Affairs Nate Emerson, Director of Institutional Research
Resolution date:	September 1, 2001
Resolution:	Auto Body program: the Cashier's office will be notified by email or a copy of the sequentially numbered work order that a vehicle has been taken into the shop for repair. Information sent will include make, model, year, color, VIN, and cost

estimate. Cashier's office will prepare an inventory of vehicles in the shop. Periodically, the Cashier will visit the shop to verify the current inventory. When work is complete, the sequentially numbered work order and the vehicle keys will be delivered to the Cashier's Office. The customer will pay the bill at the Cashier's office and receive the keys to the vehicle. Note will be taken and followed up on missing numbered work orders. At the end of the year anticipated resale revenue will be compared to actual resale revenue received. Differences will be investigated.

5. Routine transactions were voided in the bookstore.

   Assigned to resolve: Nate Emerson, Director of Institutional Research

   Resolution date: Immediate, the practice has been discontinued.

   Resolution: The current practice has been discontinued. Deposits will be made from the bookstore cash register whenever the balance exceeds $250.00 or a minimum of once per week.

Administrative Expenditures:

6. The college incorrectly coded occurrence dates in the accounting system and did not keep incoming deliveries in a secured location.

   Assigned to resolve: Bonnie Lutz, Accounting Supervisor
   Greg Williams, Building Maintenance Supervisor

   Resolution date: September 1, 2001

   Resolution: Receiving duties will be assigned to a support person who does not work in accounts payable or purchasing. Incoming shipments will be delivered to a secure area within the maintenance department. Shipments will be opened and inspected. The current date will be recorded on the packing slip and the packing slip will be delivered to the business office. The shipment will be delivered to the individual that initiated the order. The person initiating the order will sign or initial their copy of the purchase order, verifying receipt of the shipment, and return the copy of the purchase order to the business office.

End audit findings and responses.

Once again, I want to thank the Office of the Legislative Auditor for its professional and comprehensive audit. With the suggested solutions to your findings, I am confidant that Minnesota State College - Southeast Technical has put in place sound financial management processes.

Sincerely,

/s/ James J. Johnson

James J. Johnson
President

Cc: Blake Pickart, Vice-President, Finance and Administration