OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota West Community and Technical College
July 1, 1998, through June 30, 2001

JUNE 27, 2002 **02-43**

Financial Audit Division

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Ronald A. Wood, President
Minnesota West Community and Technical College

We have audited selected areas of Minnesota West Community and Technical College for the period July 1, 1998, through June 30, 2001. Our audit scope included: financial management, tuition, fees, customized training, payroll, selected operating expenditure areas, and the bookstore. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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 West Community and Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Minnesota West Community and Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 27, 2002.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: April 12, 2002

Report Signed On June 21, 2002

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Audit Participation

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

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Ken Vandermeer, CPA, CFE	Auditor-In-Charge
Laura Peterson, CPA	Auditor
George Deden, CPA	Auditor
Marisa Zenk	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Minnesota West Community and Technical College and the Office of the Chancellor at an exit conference held on June 11, 2002:

Minnesota West Community and Technical College:

Ronald Wood	President
Lori Voss	Vice President Finance/Human Resources

Office of the Chancellor:

Laura King	Vice Chancellor/Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Margaret Jenniges	Director, Financial Reporting
Melissa Primus	Regional Audit Coordinator

Report Summary

Minnesota West Community and Technical College's budgetary controls provided reasonable assurance that it operated within available resources. The college timely completed key state treasury and bank reconciliations to ensure that financial activities were accurately recorded in the accounting records. The college's internal controls provided reasonable assurance that state treasury and bank account financial activities were adequately safeguarded and in compliance with applicable legal provisions and management's authorization.

Key Findings and Recommendations

- The college did not require part-time faculty and administrators, when serving as foundation board members, to abstain from voting on college business. We recommended that the college work with the Office of the Chancellor to resolve this policy matter. (Finding 1, page 7)
- Tuition and bookstore collection controls require improvement. We found that an excessive number of college employees have incompatible access to process collections, waivers and receivable corrections, and sufficient mitigating detective controls have not been established. Also, an independent verification of the cashiers' work does not occur on all campuses increasing the risk of cash shortages within receipt processing. (Finding 2, page 11)
- The college incorrectly recorded $508,790 of grant receipts as tuition revenue and $257,732 of state grants in the private grant fund. We recommended working with the Office of the Chancellor to make corrections. (Finding 3, page 12)
- The college did not prepare written agreements for certain instructional partnerships and other business arrangements. (Finding 4, page 17)

Background

Minnesota West Community and Technical College is located at five southwestern Minnesota campuses located in Canby, Granite Falls, Jackson, Pipestone and Worthington. The college's enrollment is approximately 2,000 students. Dr. Ronald Wood was appointed the college president in July 1998.

Minnesota West Community and Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition, fees, customized training, payroll, operating expenditures, and the bookstore for the period July 1, 1998, through June 30, 2001. The college's response is included in the report.

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Chapter 1. Introduction

Minnesota West Community and Technical College (MnWest) is accessible to students at five southwestern Minnesota campuses located in Canby, Granite Falls, Jackson, Pipestone, and Worthington. The five campuses of MnWest are part of the Minnesota State Colleges and Universities (MnSCU) system, which is governed by a Board of Trustees and the Office of the Chancellor. Dr. Ron Wood was appointed president of the MnWest College on July 22, 1998.

The college provides students with the opportunity to earn an associate degree, diploma, or certificate. Courses are designed to transfer to a four-year college or university and will apply toward a baccalaureate degree. In addition to liberal arts offerings, MnWest also offers continuing education and customized training programs. The programs offer short-term, part-time credit and clock hour courses, continuing education units, and customized training to individuals, businesses, industries, and agencies. The continuing education and customized training department makes courses and programs available to the public from a wide array of experts and consultants in many fields. Table 1-1 shows student attendance at MnWest for fiscal years 1999 through 2001.

Table 1-1
Full-Year Equivalent Student Counts
Fiscal Years 1999 to 2001

Campus	1999 (note 1)	2000	2001
Canby	233	211	198
Granite Falls	314	299	300
Jackson	437	438	442
Pipestone	297	268	267
Worthington	603	579	592
Offsite (Note 1)	271	242	241
Total	2,155	2,037	2,040

Note 1: During 1999, the college redefined which fiscal year its summer school was reported in. As a result, fiscal year 1999 student count information included two summer sessions.

Note 2: Offsite students primarily attend the Management Program at various college campuses.

Source: College Vice President of Finance and Human Resources.

The college finances its operations primarily from state appropriations and student tuition and fees. The campus' financial activities for the fiscal year ended June 30, 2001, are reported in the MnSCU General Purpose Financial Statements and Supplemental Schedules. The financial statements received an unqualified opinion from an independent auditor.

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Chapter 2. Financial Management

Chapter Conclusions

Minnesota West Community and Technical College's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. Monthly state treasury and bank account reconciliations to the accounting system were timely completed to ensure accuracy of balances. For the items tested, the college complied with applicable collateral requirements for its local bank accounts.

We noted that the college had an appropriate contractual relationship with each of its affiliated foundations; however, contrary to MnSCU Procedure 8.3.1, it allowed six part-time employees to serve as foundation board members with voting rights. We suggested that the college work with the Office of the Chancellor to resolve this policy matter.

MnSCU receives appropriations from the state's General Fund for a large share of its operational funding. The Office of the Chancellor allocates appropriated funds to Minnesota West Community and Technical College, and other colleges and universities, based on an allocation formula. The college retains the tuition and other receipts it collects to arrive at its total spending authority.

Once the college determines its authorized spending level, it allocates spending budgets to the various administrative and academic cost centers. The college generates monthly financial reports that it distributes to cost center managers. College management and cost center managers use the reports to assess the financial status of their areas of responsibility.

The college uses the MnSCU accounting system to initiate and record financial transactions for state treasury activities and also for activities maintained outside the state treasury. MnSCU accounting transactions that impact funds held in the state treasury update the state's primary accounting system (the Minnesota Accounting and Procurement System, or MAPS) through an automated interface. The state's accounting system generates state treasury warrants for state-appropriated activities. Similarly, the state's payroll system (State Employment Management System, or SEMA4) is used to generate warrants initiated by the State Colleges and Universities Personnel/Payroll System (SCUPPS).

The main business office is located at the Canby campus. Each of the remaining four campuses have a business office staffed with at least one accountant. To mitigate separation of duties weaknesses caused by lack of staff, the Canby business office instituted detective controls, including tests of receipts, purchases, and other financial transactions from each campus.

The college administers certain funds, such as financial aid and enterprise activities, in local bank accounts. College bank account reconciliations to the accounting system are necessary to ensure the accuracy of bank and accounting balances. The college also has the responsibility to ensure that it secures deposits held in the college's bank accounts against loss. Minnesota statutes require that bank balances not exceed 90 percent of the market value of the bank's pledged collateral.

Each month, the business office in Canby reconciles the MnSCU system reports to MAPS. Each business office is responsible for reconciling the local bank accounts to the MnSCU accounting system. These reconciliations are complicated by transfers from the local banks used by the Granite Falls, Jackson, Pipestone, and Worthington campuses. Revenue collections at those four campuses are deposited in a local bank, where a check is issued and mailed to the Canby bank. The Canby bank account serves as the state depository where funds are swept into the state treasury. Deposits and transfers were timely made during the scope period, limiting any potentially adverse effects from the college's decision to not establish a state depository at all five campus locations.

The college is affiliated with two separate non-profit foundations. Prior to the merger, one foundation represented the four technical colleges, and one represented the Worthington Community College. Each foundation has its own board of directors, articles of incorporation, and bylaws. The college provided administrative support to each foundation. Foundation financial statements are prepared annually and subject to an external audit by a CPA firm every three years. Currently, the merged college has separate and independent relationships with each foundation. The management of MnWest continues to encourage the two foundations to consider merging into one foundation supporting the college.

Audit Objectives and Methodology

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

- Did the college's budgetary controls provide reasonable assurance that it operated within available financial resources?
- Did college internal controls provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, properly recorded in the accounting system, and in compliance with applicable legal provisions and management's authorization?
- Did the college establish an appropriate operating relationship with its affiliated foundations?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the financial areas included in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and state treasury and bank account reconciliations. We analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We also reviewed bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Controls over state grant revenues and miscellaneous resales were also reviewed on a limited basis. Finally, we reviewed security privileges to determine whether the college monitored employee access to its computerized business systems.

Conclusions

The college's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. Monthly state treasury and bank account reconciliations to the accounting system were timely completed to help ensure accuracy of the balances. For the items tested, the college complied with applicable collateral requirements for its local bank accounts.

Due to the geographic distance between college campuses and a limited number of administrative staff available, the college has developed detective controls to mitigate separation of duties weaknesses. The college performed tests of receipts, purchases, and other financial transactions for each campus. These reviews, although very beneficial, were not performed on a consistent basis and did not consider the need for more frequent independent reconciliations of tuition, customized training, and bookstore collections as discussed in Chapter 3. Controls could be strengthened if the reviews were performed more routinely and if campus staff duties were interchanged to provide more immediate and ongoing independent verification of incoming moneys, especially during peak tuition periods.

We noted that the college had an appropriate contractual relationship with each of its affiliated foundations, however, as discussed in Finding 1, contrary to MnSCU Procedure 8.3.1, it allowed six part-time employees to serve as foundation board members with voting rights. We suggested that the college work with the Office of the Chancellor to resolve this policy matter.

1. The college did not require certain part-time faculty and administrators to abstain from voting on college business when acting as a foundation board member.

MnSCU Policy and Procedure 8.3.1 does not permit college personnel to participate as voting members on foundation boards. Our audit identified that six foundation board members are retired MnWest faculty or administrators that, on occasion, work part-time at the college. Table 2-1 shows the wages paid to these part-time employees.

Table 2-1
Part-Time College Salaries for Foundation Board Members
Fiscal Years 1999 to 2001

Employee	Board Term	1999	2000	2001
Faculty #1	2000-2001	$ 0	$8,752	$12,121
Faculty #2	2000-2001	0	1,838	1,838
Faculty #3	1997-2001	0	1,575	0
Faculty #4	1995-2000	410	0	0
Administrator #1	1997-2002	$6,253	$5,400	$ 3,600
Administrator #2	1995-2002	1,875	0	40

Source: Auditor-prepared from foundation board appointment information and college payroll records.

MnSCU Board Policy 8.3 clearly requires a separate and legal distinction between the college and its foundations. The policy intends to create an 'arms-length' entity and minimize potential conflicts of interest for college employees. MnSCU Procedure 8.3.1 further prohibits college personnel from participating as voting members on foundation boards.

We interpret the MnSCU policy and procedure to prohibit any college personnel, both full-time and part-time, from participating as voting foundation board members. Allowing college employees to serve as voting members creates a potential conflict of interest, even though the employment relationship is reduced to a part-time level. One alternative solution, under the current policy, could include having these college employees serve as ex officio (non-voting) foundation board members.

Recommendation

- *The college should work with the Office of the Chancellor to appropriately restrict employee involvement in its foundation boards.*

Chapter 3. Tuition, Fees, and Customized Training

Chapter Conclusions

The college's internal controls generally provided reasonable assurance that tuition, fees, and customized training revenues were safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, controls were weakened by inadequate restriction of employees' access to college computerized business systems. We found that the college did not develop sufficient mitigating controls for certain campuses to independently monitor and control daily cashier activities. In addition, the college incorrectly recorded $508,790 of grant receipts as tuition revenue and $257,732 of state grants in the private grant fund. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition.

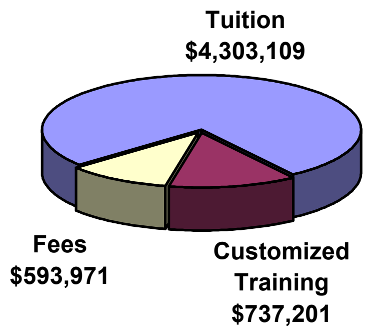
Minnesota West Community and Technical College offers credit-based courses that lead to a diploma, certificate, or an associate degree. The largest programs include practical nursing, electrician, collision repair, telecommunications, and liberal arts education. The programs unique to the college include soil and water conservation technology, process plant technology, meat merchandising, robotic technician, and pharmacy technician. On a space available basis, the college allows Minnesota high school junior and seniors to enroll in courses as post secondary enrollment option students.

In addition to credit-based courses, the college provides hourly based or continuing education open enrollment courses to the public and customized training contract courses to business organizations and industry. The college based the rate for these classes on market conditions with consideration given for instructor fees, overhead, and other related costs.

During fiscal year 2001, the resident tuition rate for credit classes was $71.25 and the nonresident rate was $142.50. Standard fees were $7.25 per credit. The business office staff at each campus collected tuition and fees and deposited the receipts daily in local bank accounts. Each campus then transferred funds from its account to a centralized bank account in Canby, which serves as the state depository.

The college collected approximately $5.6 million in tuition, fees, and customized training revenue in fiscal year 2001. The college used the MnSCU Integrated Student Records System accounts receivable module to register, bill, and collect tuition. Figure 3-1 shows a breakdown of the revenue for fiscal year 2001.

Figure 3-1
Tuition Revenues
Fiscal Year 2001



Source: MnSCU accounting.

Audit Objectives and Methodology

The primary objectives of our review of tuition, fees, and customized training were as follows:

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

- Did MnWest comply, in all material respects, with the significant finance-related legal provisions concerning tuition?

To answer these questions, we interviewed college employees to gain an understanding of the internal controls over tuition, fees, and customized training revenue. We analyzed transactions to identify receipt and deposit trends. We examined tuition rate tables, security access privileges, and cash session close out procedures. Accounting records and supporting documentation were reviewed to determine if the college properly collected and recorded revenue transactions in the accounting system, made daily deposits when required, authorized student tuition waivers, and complied with waiver provisions in the employee bargaining agreements. Finally, we reviewed how the college monitored and pursued collection of unpaid accounts receivables.

Conclusions

The college's internal controls generally provided reasonable assurance that tuition, fees, and customized training revenues were safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, controls were weakened by inadequate restriction of employee access to college computerized business systems. We found that the college did not develop sufficient mitigating controls for certain campuses to independently monitor and control daily cashier activities. In addition, the college incorrectly recorded $508,790 of grant receipts as tuition revenue and $257,732 of state grants in the private grant fund. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition.

2. PRIOR FINDING PARTIALLY RESOLVED: The college did not adequately restrict certain employee computer access privileges nor develop sufficient mitigating controls ensuring all tuition and bookstore collections were deposited.

Minnesota West Community and Technical College's internal controls involving computer system access privileges for tuition and bookstore cashier activities had several weaknesses. These weaknesses increased the risk that errors and irregularities related to cash collections could occur without detection. If separation of duties is not cost beneficial, due to a limited number of administrative staff at each campus, mitigating detective controls should be established to reduce risk exposures. We noted the following concerns:

- The college did not adequately restrict employee access to its computerized accounting system controlling tuition. Fifteen employees had incompatible access to cashiering, tuition waiver, and correction functions in the accounts receivable module of MnSCU accounting. The capability to produce correcting entries and waivers should not be assigned to cashiers without an independent review of the corrections and waivers. For fiscal years 1999, 2000, and 2001, student tuition and fee waivers totaled $42,963, $60,960, and $127,251, respectively. During the audit period, the college did not have an independent person review the waivers or corrections at any campus. Beginning in fiscal year 2002, it began to independently review waivers as part of a central quality control review, but coverage did not include correcting entries.

- Cash drawer reports for tuition and customized training and cash register tapes for bookstore collections were being independently compared to bank deposits at Pipestone, but not at the other campuses. Ideally, to minimize the risk of deposit shortages, the campuses should assign a staff person independent of the cash handling function the responsibility to ensure the cash register tape or cash drawer report agrees with the amount deposited. We think that due to the need for immediate and ongoing independent verification of incoming moneys during peak tuition collection periods, an effective solution could include an interchange of duties between the campus tuition and bookstore cashiers.

- In order to mitigate risks resulting from limited staff and incompatible access privileges, the college performed quality control reviews where separation of duties is not feasible. For example, in fiscal year 2002, the business office at Canby began to review tuition waivers independent of the campus cashier. The quality control review, although beneficial for assessing propriety, does not sufficiently provide the necessary day-to-day oversight needed to control incoming moneys. We suggest campus staff verifying daily cash deposits also review waivers and corrections that were processed that day.

Recommendations

- *The college should improve computer system security, to the extent feasible, and security access controls by restricting access to its business systems based on job responsibilities.*

- *The college should improve or develop mitigating controls in areas where separation of duties is not feasible. It should consider interchanging campus employee duties to provide more immediate and ongoing independent verification over incoming moneys, especially during peak tuition periods.*

3. The college incorrectly recorded certain grant revenues in the accounting system.

The college recorded Adult Basic Education, Passing on the Farm, and other grants as tuition revenue. It assigned the wrong accounting system revenue source code. In addition, the college incorrectly recorded a grant from the Minnesota Department of Agriculture in the private grant fund rather than the state grant fund. As a result of the coding errors, MnWest misidentified $508,790 of grant revenues as tuition and overstated private grant fund revenues of $257,732 during the audit period.

Accurate coding and proper fund classification of grant revenue is critical to producing meaningful financial information for management, as well as for reliable financial reporting back to grantors. Inaccurate recording of these transactions as tuition could adversely effect management decisions on tuition rate changes. For example, management reports that query the tuition code could inappropriately include these misidentified revenues.

Recommendation

- *The college should accurately record tuition and grant revenue in the accounting system and work with the Office of the Chancellor to consider the need to correct the coding and fund classification errors made in prior fiscal years.*

Chapter 4. Payroll Expenditures

Chapter Conclusions

Minnesota West Community and Technical College's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. However, we found that the college did not prepare written assignments for 18 instructors in various management programs for fiscal year 2000. Instead, it had verbally authorized these instructional assignments and salary placements. For fiscal year 2001, the college properly documented the management program assignments and staff salary placements, and the college president authorized these assignments.

For the items tested, the college complied with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans.

Payroll and benefits represent the college's largest operating cost annually, totaling over $16 million, or 55 percent of total expenditures, in fiscal year 2001. Payroll and personnel data are centrally reviewed, approved, and processed by staff located at the Canby campus. Staff assignments, pay rates, and bargaining agreement information are maintained in the State Colleges and Universities Personnel/Payroll System (SCUPPS). SCUPPS interfaces into the State Employee Management System (SEMA4) to generate paychecks or direct deposits to college employees.

The college employed 150 full time equivalent faculty, 190 administrative and program staff, and 15 customized training employees during fiscal year 2001. College employees are covered by various compensation plans, including the following organizations:

- American Federation of State, County and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Excluded Administrators Plan
- Commissioner's Plan
- United Technical College Educators Plan
- Minnesota Community College Faculty Association

Minnesota West Community and Technical College

Table 4-1 shows the annual payroll and fringe benefits costs for the past three fiscal years.

Table 4-1
Payroll and Fringe Benefit Expenditures
Fiscal Years 1999 to 2001

	1999	2000	2001
Employee Salaries	$10,907,902	$11,743,693	$12,390,807
Fringe Benefits	2,812,226	3,248,816	3,693,887
Total	$13,720,128	$14,992,509	$16,084,694

Source: MnSCU accounting for fiscal years 1999, 2000, and 2001 as of December 31, 2001.

Audit Objective and Methodology

The primary objective of our review of payroll expenditures was to answer the following questions:

- Did the college's controls provide reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records?
- Did the college comply with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We reviewed system security privileges and procedures used to process and reconcile payroll transactions. We analyzed employee annual compensation, tested SCUPPS appointments for management's authorization, compared paid hours worked and leave taken to timesheets for classified employees, and tested payrate increases for management authorization and compliance with bargaining unit agreements. We also examined faculty and administrator leave balances maintained by the college.

Conclusions

Minnesota West Community and Technical College's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. However, we found that the college did not prepare written assignments for 18 instructors in the Small Business, Lamb and Wool, and Farm Management programs for fiscal year 2000. Instead, it had verbally authorized these instructional assignments and salary placements. For fiscal year 2001, the college properly documented the Management Program assignments and staff salary placements, and the college president authorized these assignments.

For the items tested, the college complied with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans.

Chapter 5. Operating Expenditures

Chapter Conclusions

The college's internal controls provided reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services received, and transactions were accurately recorded and in compliance with applicable legal provisions and management's authorization. However, the college did not prepare written agreements for certain business arrangements. We also encountered two employees with incompatible access to update both procurement and disbursement functions. The college accepted the incompatible access risks since the staff served in a backup capacity and did not routinely enter transactions. In addition, two other staff had excessive procurement privileges in the purchasing control system that the college immediately restricted when we brought it to their attention.

For the items tested, the college complied with significant finance-related legal provisions concerning procurement and disbursements.

Faculty and staff at the five campuses incur various operating expenditures to facilitate the college's educational mission. Our audit focused on expenditures for purchased and consultant services, utilities, and supplies. Expenditures in these areas for all funds totaled over $4 million each year as shown in Table 5-1.

Table 5-1
Selected Operating Expenditures
Fiscal Years 1999 to 2001

Expenditure Category	1999	2000	2001
Purchased Services	$ 838,850	$1,042,012	$ 963,292
Consultant/Contract Services	1,036,769	1,331,827	1,469,833
Utilities	513,317	525,903	631,315
Supplies	1,842,869	1,435,935	1,266,071
Total	$4,231,805	$4,335,677	$4,330,511

Source: MnSCU accounting system for fiscal years 1999, 2000, and 2001 as of December 31, 2001.

To purchase goods or services, authorized personnel from the various college departments enter a requisition in the MnSCU Purchase Control System. The requisition, which encumbers funds, must be approved by the appropriate department head or an individual delegated authority. The department making the purchase is responsible for soliciting bids for purchases above $10,000. For purchases expected to exceed $25,000, the procurement is administered by the Canby business office, which is responsible for obtaining sealed bids and system office approval, if applicable. At the time of the encumbrance, sufficient funds are set aside for the payment of the future obligation. Once the campus receives the goods or services, the department responsible for the purchase reviews the receiving documentation against the purchase order and the invoice submitted and forwards the documentation to the Canby business office. Employees at the Canby business office perform a second review, matching the invoice to the purchase order and the receiving documentation, and process payments in MnSCU accounting.

The college tracks all fixed assets valued at over $2,000, with a useful life of more than two years, on the MnSCU fixed asset system. College policies also require recording of sensitive assets under $2,000. The college conducted a physical inventory at the Granite Falls campus during fiscal year 2001, but not at the other campuses. The college indicated it plans to conduct periodic physical inventories at the other campuses in the near future.

In the prior audit, we noted that the college paid vendor invoices without evidence assuring the receipt of goods. Packing slips, or other similar documentation, typically accompany the delivery of goods or materials. When packing slips are not available, a signed and dated acknowledgement on the purchase order by campus staff provides similar assurance. Currently, although controls improved in the area, we found that some expenditures tested did not contain the actual date of receipt of goods. Instead, the invoice date was used which closely, but not precisely, represents the date of liability.

Audit Objective and Methodology

The primary objective of our review of operating expenditures was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that expenditures were for goods and services actually received, and transactions were accurately recorded in the accounting records?

- Did the college comply with applicable legal provisions and MnSCU policies concerning procurement and disbursements?

To answer these questions, we interviewed college employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine whether the college properly authorized, processed, and recorded the expenditures. We also reviewed a sample of expenditures to determine if the college complied with applicable legal provisions concerning procurement and disbursements. Finally, we reviewed security privileges to determine whether the college adequately restricted access to its accounting system.

Conclusions

The college's internal controls provided reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services received, and transactions were accurately recorded and in compliance with applicable legal provisions and management's authorization. However, the college did not prepare written agreements for certain business arrangements. We also encountered two employees with incompatible access to update both procurement and disbursement functions. The college accepted the incompatible access risks since the staff served in a backup capacity and did not routinely enter transactions. In addition, two other staff had excessive procurement privileges in the purchasing control system that the college immediately restricted when we brought it to their attention.

For the items tested, the college complied with significant finance-related legal provisions concerning procurement and disbursements.

4. The college did not prepare or document written agreements with some local school districts and outside business entities.

The college did not have written contracts in place for certain arrangements and partnerships with outside entities. Specifically:

- A written agreement was not prepared with a private company for an instructional partnership regarding manufacturing practices. This partnership was the result of a $130,000 grant from the Office of the Chancellor. A project proposal was available, but no specific contract outlining the terms of the agreement.

- The college shared the costs of a building trades and drafting instructor with a local school district in 1998-1999. It paid for half of the $32,282 annual salary and fringe benefit costs, or $16,141. No agreement was prepared to support management's decision to enter into the arrangement and to fund half of the instruction.

- Documentation was unavailable supporting an arrangement with a local school district for the lease of fiber optic lines. The college recalled preparation of a contract to support $25,371 paid to the school district, but could not locate it. The lease arrangement expired at the end of fiscal year 2000.

Written contracts are necessary when partnerships and other types of arrangements are made with outside entities. Lack of a written understanding of each party's responsibility and the absence of authorized signatures and effective dates for an agreement can result in confusion and a failure to deliver on the agreed upon terms. Without written agreements, the college may incur additional legal costs to enforce compliance or limit its liability.

Recommendation

- *The college should prepare written agreements with outside entities for instructional partnerships or other business arrangements entered into.*

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Chapter 6. Bookstore

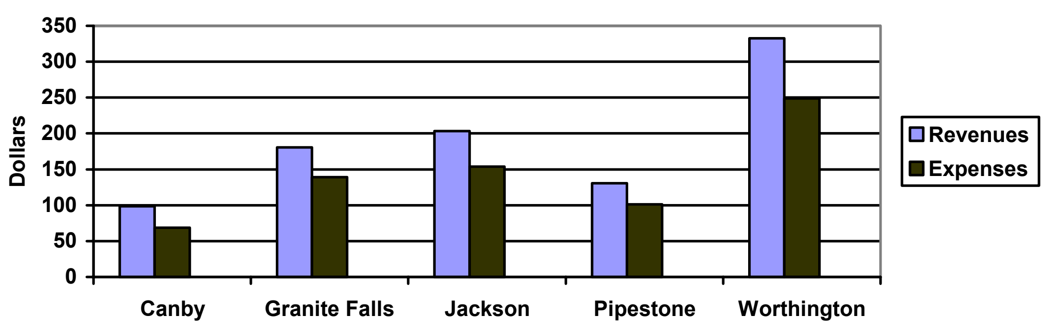
Chapter Conclusions

The college's internal controls provided reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, our review identified a control weakness over bookstore receipts, as discussed in Chapter 3, Finding 2. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore operations.

The college employs one bookstore employee at each campus, and they report to a campus management representative. The bookstores sell a variety of books, supplies, and apparel. Each bookstore receives money in the form of cash, check, or credit card, and records sales in a cash register. At the end of each business day, bookstore employees count the money and reconcile it to the cash register tape.

During fiscal year 2001, the college recorded $945,387 in revenues and $711,636 in expenses for the bookstore on the MnSCU accounting system. Figure 6-1 shows the annual financial activity for each campus bookstore in fiscal year 2001.

Figure 6-1
Bookstore Revenues and Expenses
Fiscal Year 2001 (In Thousands)



Source: MnSCU accounting system for fiscal year 2001 as of December 31,2001.

Minnesota West Community and Technical College

Our prior audit noted that bookstore expenditures did not include all operating costs, such as rent, utilities, and indirect costs for accounting and payroll services. In response, the college developed an allocation plan and charged overhead costs to each campus bookstore.

Another prior concern involved college payment of vendor invoices without sufficient evidence, such as packing slips or other similar documentation, assuring the receipt of goods. When packing slips are not available, a signed and dated acknowledgement on the purchase order by bookstore staff provides similar assurance. Currently, although controls improved in the area, we still found most bookstore invoices tested did not contain both a signature and the date of actual receipt. The invoice date was used most of the time, which may not be the precise date of liability when goods were actually delivered and received by the college. Without proper recording of the liability date, the annual financial statements may be inaccurate.

Audit Objectives and Methodology

Our review of the bookstore operations focused on the following questions:

- Did the college's internal controls provide reasonable assurance that bookstore revenue collections and disbursement transactions were 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 bookstore operations?

To answer these questions, we interviewed campus bookstore and business office employees to gain an understanding of the internal controls in place over bookstore revenues and expenses. We performed analytical reviews and tested transactions to determine if the college properly documented and accurately recorded transactions on the MnSCU accounting system. We also reviewed the college overhead allocation documentation and supporting transactions posted in MnSCU accounting.

Conclusions

The college's internal controls provided reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, our review identified a control weakness over bookstore receipts, as discussed in Chapter 3, Finding 2. For the items tested, the college complied with the significant finance-related legal provisions concerning bookstore operations.

Status of Prior Audit Issues
As of May 2002

Most Recent Audit

Legislative Audit Report 99-48, issued in September 1999, covered the college's material activities and programs, including general financial management, tuition, fees, and customized training revenues, resale revenues, employee and student payroll, selected expenditure areas, and bookstore operations. We also reviewed the administration of student financial aid programs. The prior report contained six findings, two of which were resolved. Two other prior findings, pertaining to resale controls and receiving evidence controls, were substantially implemented and the college continues to work on improved controls. The remaining two prior findings, pertaining to computer system access privileges and separation of duties, were partially resolved and discussed in the current audit report in Finding 2. Since the prior audit, the college restricted access over payroll and personnel transactions and reduced the number of employees with incompatible access in the purchasing and accounting business systems.

Other Audit Coverage

The Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU's general purpose financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received an unqualified opinion for fiscal year 2001. As a part of the audit, the firm issued a management letter to MnSCU's Board of Trustees. The letter contained 13 comments on accounting, administrative, and operating matters. While the comments did not specifically mention Minnesota West Community and Technical College, certain matters involved segregation of duties, which are concerns at MnWest and are included in our report as Finding 2.

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. 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 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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Minnesota West
COMMUNITY & TECHNICAL COLLEGE
Canby • Granite Falls
Jackson • Pipestone • Worthington

Office of the President

June 11, 2002

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

Dear Mr. Nobles:

The purpose of this letter is to respond to the recently completed audit by the OLA of Minnesota West Community and Technical College for the period July 1, 1998 through June 30, 2001. The college's formal response to each of the four findings is attached. If you have any questions or concerns in regards to our response to the audit findings, please feel free to contact either myself or Lori Voss.

The last three years continued to be a period of rapid organizational change. During this period we have moved to a highly centralized business office operation that we believe has been both cost effective and has created additional financial controls. The changes are part of our on going effort at continuous improvement. Minnesota West Community and Technical College will always be challenged by geography with five campuses covering 20,000 square miles. Given this challenge we take great pride in our fiscal management and control. We perceive the recently completed OLA audit as one piece of our continuous improvement model.

In closing, I would like to thank the members of the Minnesota West Community and Technical College OLA team for their work and insights into our business operation. Again it has been a pleasure to work with such a team of professionals. Through their suggestions and recommendations Minnesota West will forge a stronger financial operation and in turn insure our ability to maximize our resources towards a quality- learning environment.

Sincerely,

Ronald A. Wood

Ronald A. Wood
President

Attachment

1. **Recommendation:** The college did not require certain part-time faculty and administrators to abstain from voting on college business when acting as a foundation board member.

   Response: The college will be seeking MnSCU's help in clarifying policy 8.3.1 as it relates to part-time and/or customized training faculty. This will be the responsibility of Lori Voss, VP of Finance/HR.

2. **Prior Finding Partially Resolved:** The college did not adequately restrict certain employee computer access privileges nor develop sufficient mitigating controls ensuring all tuition and bookstore collections were deposited.

   Response: The college will be seeking MnSCU's assistance in obtaining security rights for waivers that are limited to parking only(cost center level). In the absence of such rights, the college will have to waive all parking from a central location with supporting data provided by the individual campuses or independently review transaction of those employees that have excess waiver rights. This review process will be put in place beginning July 1, 2002. This will be the responsibility of Mary Melby, Business Manager.

   The college will put in place a review process for deposits at the Jackson campus by September 1, 2002. This will be the responsibility of Mary Melby, Business Manager.

   The college will study how many waivers and corrections are processed each day to determine the timeliness of review efforts. This will be completed by September 1, 2002. This will be the responsibility of Mary Melby, Business Manager.

3. **Recommendation:** The college incorrectly recorded certain grant revenues in the accounting system.

   Response: The college recognizes the errors made and will strive to complete better reviews and corrections of the appropriate use of revenue object codes. This process will be on-going and the responsibility of Mary Melby, Business Manager.

4. **Recommendation:** The college did not prepare or document written agreements with one local school districts and outside business entities.

   Response: The college believes they have seen great improvement in this area with the centralization of accounts payable in the fall of 2001. We will continue to stress proper written contracts for arrangements and partnerships with outside entities. This is on-going and the responsibility of Mary Melby, Business Manager as well as Paulette Wiesen and Rebekah Skogen, Accounts Payable.