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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Lake Superior College

July 1, 1999, through June 30, 2002

SEPTEMBER 16, 2003 **03-51**

Financial Audit Division

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OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

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

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Dr. Kathleen Nelson, President
Lake Superior College

We have audited Lake Superior College for the period July 1, 1999, through June 30, 2002. Our audit scope included: financial management, tuition and fees, payroll, operating expenditures, and bookstore and food service receipts. Our scope did not include federal financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. We highlight the audit objectives and conclusions 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 Lake Superior College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The 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 Lake Superior College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 16, 2003.

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

End of Fieldwork: June 20, 2003

Report Signed On: September 10, 2003

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Poliseno, CPA, CISA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
George Deden, CPA	Senior Auditor
Gena Hoffman	Senior Auditor
April Snyder	Senior Auditor

Exit Conference

The following staff from the Office of the Chancellor and Lake Superior College participated in the exit conference held on September 2, 2003:

Office of the Chancellor:	
Laura King	Vice Chancellor/Chief Financial Officer
Alan Johnson	Vice Chancellor for Facilities
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Kim McLaughlin	Regional Audit Coordinator
Lake Superior College:	
Kathy Nelson	President
Rick Halvorson	Vice President
Susan Davis	Accounting Supervisor

Report Summary

Lake Superior College operated within its available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that it recorded its financial activities in the accounting records. The college's internal controls provided reasonable assurance that it safeguarded state treasury and local bank account financial activities and complied with applicable legal provisions and management's authorization.

Key Findings:

- Lake Superior College did not properly monitor and control travel fees for one of its study abroad programs. The students paid their travel fees to the instructor who used a personal bank account to process the travel receipts instead of depositing them into the state treasury. Also, the instructor created a potential conflict of interest by allowing a family member to act as travel agent for the trip. In addition, the college paid travel costs for family members to accompany the instructor on the trip. (Finding 2, page 11)

- Lake Superior College's administrative costs, incurred on behalf of its foundation, exceeded the amount of scholarship aid received from the foundation. The foundation was inactive until 1999, and has not yet received donations sufficient to cover its costs. The contract with the foundation requires the foundation to provide an amount equal to or more than the cost of administrative support incurred by the college. (Finding 1, page 7)

- Lake Superior College did not promptly deposit third party receipts. (Finding 3, page 12)

- The college did not prepare contracts for professional/technical services and did not obtain approval from the Office of the Chancellor for contract services exceeding $50,000. (Finding 7, page 20)

Lake Superior College is part of the Minnesota State Colleges and Universities (MnSCU) system. This financial-related audit report focused on financial management, tuition and fees, employee payroll, administrative expenditures, state financial aid, and bookstore and food service operations for the period July 1, 1999, through June 30, 2002. The college's response is included in the report.

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Chapter 1. Introduction

Lake Superior College is the product of a merger in 1995 of Duluth's community and technical colleges. It is one of 33 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system, which began operations on July 1, 1995. Dr. Kathleen Nelson is the college president.

Lake Superior College offers more than 80 technical majors and courses from 27 academic disciplines. The larger programs include Associate in Arts transfer program, practical nursing, computer information systems, and electronics. Some of the more unique programs include professional pilot, fire technology, massage therapy, accelerated computer networking, and respiratory care practitioner. During fiscal year 2002, the college served about 7,800 students representing a full-time equivalent of over 2,900 students. The college has experienced double-digit enrollment increases during the past two years.

Lake Superior College funds its operations from three major sources: state appropriations allocated by the Office of the Chancellor, tuition and fee receipts, and federal revenue.

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Chapter 2. Financial Management

Chapter Conclusions

Lake Superior College operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure it accurately recorded its financial activities in the accounting records. The college's internal controls provided reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded and in compliance with applicable legal provisions and management's authorization. The college entered into an agreement with its foundation to provide financial support to the college. However, the college did not receive sufficient contributions from its foundation to cover the administrative costs it provided to the foundation.

Lake Superior College used the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaced with the state's accounting system, the Minnesota Accounting and Procurement System (MAPS), to generate warrants from the state treasury. The Office of the Chancellor also requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury.

Audit Objectives and Methodology

Our review of Lake Superior College's financial management structure focused on the following questions:

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

- Did the college's internal controls provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- Did the college establish an appropriate operating relationship with its foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the college's use of the MnSCU accounting system for the programs in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. We analyzed and reviewed

MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We also reviewed local bank activity to determine compliance with collateral requirements. Finally, we reviewed the college's relationship with its foundation.

Budgetary Controls

MnSCU receives the majority of its funding for operations from General Fund appropriations. The Board of Trustees, acting through the Chancellor, is responsible for the allocation to individual colleges, including Lake Superior College. The allocation is formula based and is related to enrollment, past appropriations, and other factors. In addition, Lake Superior College, like other colleges, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

Lake Superior College has established a finance committee composed of faculty, staff, and administrative officials to oversee the budgeting process. This committee receives and reviews departmental budget requests and submits a budget to the president for approval. Once the president determines the college's authorized spending level, the finance committee allocates spending budgets to the various administrative areas and academic departments. The college established individual cost centers for each department or office to monitor its budget status. The finance committee monitors its projected versus actual student enrollment to ensure that sufficient tuition revenues will be received to support the spending budget. As of June 30, 2002, Lake Superior College had a budget reserve of about $1.3 million, or about six percent of its operating expenditures. Colleges within MnSCU will be significantly affected by the state's budget deficit over the next biennium. The system office has authorized the colleges to use its reserves, if needed, to address the budget shortfall.

Foundation

Lake Superior College is affiliated with the Lake Superior College Foundation. This foundation grew out of the original Duluth Technical College Foundation, which was incorporated in 1982. Following the MnSCU merger in 1995, the foundations for the technical college and the community college also merged. As of December 1996, the Lake Superior College Foundation had a fund balance of $43,000. However, the foundation was inactive until 1999 when it reorganized and increased its fundraising activities. As of June 2002, the fund balance had increased to $108,000. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintains its own financial records and accounts, which are audited every three years by a CPA firm. The college has a written agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants that benefit the educational mission of the college.

Conclusions

Lake Superior College operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure it accurately recorded its financial activities in the accounting records. The college's internal controls provided reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded and in compliance with applicable legal provisions and management's authorization. The college entered into a contract with its foundation to provide financial support to the college. However, the college did not receive sufficient contributions from its foundation to cover the administrative costs it provided to the foundation as discussed in Finding 1.

1. Lake Superior College did not receive sufficient contributions from the Lake Superior College Foundation to cover administrative costs it incurred on behalf of the foundation.

Because the foundation was inactive until 1999, it did not have sufficient resources to provide the required financial contributions to the college. MnSCU policy 8.3 requires that, "in return for administrative support, the foundation will contribute to the … college … an amount equal to or more than the value of the administrative support provided by the … college … to the foundation." However, the college did not receive the required amount from its foundation. For instance, in fiscal year 2002, the college received approximately $9,000 in scholarship aid, while it expended about $22,000 in administrative support. The administrative support included a $5,000 payment to help finance the foundation's operation.

The Lake Superior College Foundation has a small fund balance. The foundation does not currently generate sufficient income to cover the college's administrative costs. The college and the foundation have been active and participated in fund-raisers to increase the foundation's balance. However, until the earnings and donations increase, the cost to the college of providing administrative services will exceed contributions to the college. The college needs to work with its foundation to eliminate the difference between these costs and the foundation's contributions.

During the audit period, the college did not identify all the administrative support it provided to the foundation in order to ensure that it received at least that amount in return. However, college officials recognized that the costs exceeded the contributions received. The college needs to identify all of the costs it provides to the foundation to ensure that it receives at least that amount in foundation contributions. The college also needs to calculate the amount the foundation owes it retroactive to 1999.

Recommendations

- *Lake Superior College should work with the foundation to collect the unreimbursed amount of administrative support it has provided since 1999.*

- *The college needs to account for the administrative support it provides to the foundation to ensure that it receives the proper amount of contributions in return.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Lake Superior College's internal controls provided reasonable assurance that it safeguarded tuition and fee collections, accurately reported the amounts in the accounting records, and complied with applicable legal provisions and management's authorization. However, the college did not properly monitor and control travel fees for one of its study abroad programs. The college did not timely register students enrolled in its civil tech customized training courses.

For the items tested, the college complied with significant finance-related legal provisions concerning tuition and fees. However, the college did not promptly deposit third party tuition checks into the state treasury.

The amount of tuition charges waived by the college for some employees did not comply with applicable bargaining agreements. We tested ten employees who received waivers and found that the college miscalculated the waivers for four of the employees. All of the errors occurred in fiscal years 2000 and 2001. In fiscal year 2003, the college began having an employee independent of the waiver process review all waivers. The college also retroactively reviewed waivers issued in fiscal year 2002 and did not identify any errors for that year.

Lake Superior College collected approximately $23 million in tuition and fees during the three-year period ending June 30, 2002. The college offered credit-based courses that led to a diploma, certificate, or an associate degree. In addition to its regular programs, the college provided noncredit programs consisting of customized training and continuing education. The college developed customized training courses to meet the educational needs of a specific business or industry and offered continuing education courses to the general public. Based on available space, the college also allows Minnesota high school juniors and seniors to enroll in college courses through the post secondary enrollment option.

In fiscal year 2002, the college charged Minnesota residents $77 per semester credit and nonresidents $154. Generally, total fees amounted to about $15.40 per credit. The college used the MnSCU Integrated Student Records System (ISRS) accounts receivable module to register, bill, and collect tuition. The business office collected tuition and fees and deposited the receipts in the local bank account.

Table 3-1 shows the amounts collected for tuition, fees, and customized training programs for fiscal years 2000 through 2002.

Table 3-1
Tuition and Fee Revenues
Fiscal Years 2000 through 2002

Revenue Source:	2000	2001	2002
Tuition	$4,208,690	$4,817,341	$6,020,676
Fees	984,520	1,217,447	1,557,405
Customized Training	1,287,848	1,639,766	873,526
Total	$6,481,058	$7,674,554	$8,451,607

Note 1: Tuition amount is net of tuition refunds.

Source: MnSCU accounting system.

Audit Objectives and Methodology

Our review of Lake Superior College's tuition and fees focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded, and accurately reported in the accounting records?

- Did the college comply with applicable legal provisions and management's authorization?

To answer these questions, we interviewed college employees to gain an understanding of the internal controls over billing, collecting, depositing, and recording of tuition and fee revenue. We reviewed college tuition and fee rates, student registration and accounts receivable records, and MnSCU accounting records to determine if the college charged students appropriate rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all collected tuition, fee, and customized training revenue in compliance with applicable legal provisions. We also reviewed waiver and backdated transactions and security access for compliance with applicable legal provisions.

Conclusions

Lake Superior College's internal controls provided reasonable assurance that it safeguarded tuition and fee collections, accurately reported the amounts in the accounting records, and complied with applicable legal provisions and management's authorization. However, the college did not properly monitor and control travel fees for one of its study abroad programs, as discussed in Finding 2. The college did not timely register students enrolled in its civil tech customized training courses as discussed in Finding 4.

Lake Superior College

For the items tested, the college complied with significant finance-related legal provisions concerning tuition and fees. However, the college did not promptly deposit third party tuition checks into the state treasury as discussed in Finding 3.

The amount of tuition charges waived by the college for some employees did not comply with applicable bargaining agreements. We tested ten employees who received waivers and found that the college miscalculated the waivers for four of the employees. All of the errors occurred in fiscal years 2000 and 2001. In fiscal year 2003, the college began having an employee independent of the waiver process review all waivers. The college also retroactively reviewed waivers issued in fiscal year 2002 and did not identify any errors for that year.

2. Lake Superior College did not properly monitor and control travel fees for its study abroad courses.

Each year, the college offered one study abroad course to Europe and one to Mexico. Study abroad courses involve students and faculty visiting foreign countries for purposes of extending their educational and cultural knowledge. Students registered for the study abroad course and paid the applicable tuition to the college cashier. However, the process for travel fees varied between instructors and did not always comply with state regulations and MnSCU policies. Our concerns focused on the European trips.

Students that registered for the European trip paid their travel fees to the coordinating faculty member. The students made the checks payable to the faculty member who deposited them into a personal bank account. This account was not sanctioned by the college and not approved by the Office of the Chancellor. The faculty member also processed the related travel expenditures through the personal bank account. The faculty member told us that the program had problems in the past with processing the travel vendor payments through the college. The faculty member felt that running the activity outside the college was more reliable and efficient. However, there is no assurance that the study abroad trips administered by this faculty member complied with state and MnSCU regulations. The college did not verify that the faculty member safeguarded and deposited the receipts, or complied with purchasing and payment regulations. These study abroad programs are part of the college activity and, therefore, the financial activities should be subject to the same regulations as other college activities.

The college did not reconcile travel fees and the related travel costs for the European trips. The college established a travel budget for each trip and charged the students accordingly. The faculty member collected the travel fees and paid for travel costs, such as airfare, lodging, meals, and other miscellaneous items. After the trip, the college did not reconcile the amount collected from the students to the actual travel costs. There is no assurance that the amount collected was sufficient to cover the costs, or if it exceeded the costs of the trip.

The European trip's faculty member used a family member to handle the travel arrangements, resulting in a potential conflict of interest. This person acted as a travel agent for the program and incurred obligations on behalf of the college. However, the college did not have a contract with this person authorizing them to act on behalf of the college. Further, the college did not bid out these services to the general public. The college also paid the travel costs for this individual along with this person's minor child. In a trip to Italy in 2001, the college paid $1,716 in airfare for the two individuals. However, MnSCU procedure 5.19.3, Part 5 states that, "Travel expenses will not be reimbursed if incurred by a spouse or other individual accompanying an employee … unless the spouse/companion is a state employee and there is a bona fide business purpose requiring their attendance." The procedure further states that, "A spouse or other individual may accompany a state employee at the expense of the employee …" There does not appear to be a business purpose associated with the family member and child participating in the trip.

The college needs to review the financial activity related to the study abroad program and ensure that it complies with state and MnSCU regulations.

Recommendations

- *Travel fees for study abroad courses should be paid to the cashier as part of the registration process.*

- *The college should only use bank accounts authorized by the Office of the Chancellor and deposit all receipts into the state treasury. The college should determine that no other unauthorized bank accounts exist.*

- *The college should reconcile the travel fees to the travel costs for the European trips to determine the reasonableness of the fees and identify any excess money.*

- *The college should review all of the trips that involved the outside bank account and ensure that all financial activity was properly accounted for.*

- *The college should consider using an independent travel agent to handle the travel arrangements for all of the travel abroad courses.*

- *The Office of the Chancellor should determine if a conflict of interest existed and take appropriate action, including repayment of travel and other reimbursement costs.*

3. Lake Superior College did not deposit third party receipts in a timely manner.

The college's procedures for processing third party receipts hindered its effort to deposit the receipts in a timely manner. The business office received third party mail registrations and checks and sent these registrations and checks to the enrollment office. The enrollment office input the registrations into ISRS and returned the checks to the business office. The business office deposited these checks, including one for $7,787, after the funds applied automated process occurred once a week. The college's procedures resulted in depositing delays of 2 to 15 days. The funds applied process reduced the students account receivable balance and transferred the charges to the third party. However, depositing receipts should not be dependent on the timing of the funds applied process.

Minn. Stat. Section 16A.275 requires the college to deposit all receipts in excess of $250 on a daily basis. The college assumes additional risks of loss or theft of funds by not timely depositing funds. In addition, the college loses potential interest or investment earnings when it does not timely deposit funds.

Recommendation

- *Lake Superior College should deposit receipts exceeding $250 on a daily basis.*

4. Lake Superior College did not register certain students prior to the completion of its civil tech customized training courses.

The college did not register students for its civil tech customized training courses until after the students completed the courses. The civil tech customized training courses are offered at multiple outstate locations and represent the college's largest customized training program. These courses ranged in length from two to five days. For five classes held during spring semester of 2003, registration occurred between 15 days to two months after the classes ended. The college's delay in registering these students resulted in these transactions not being posted to MnSCU accounting in a timely manner. Further, this delay prevented the college from billing and collecting the tuition and fees from the appropriate third parties. MnSCU policy requires that financial information be accurate, reliable, and useful for management reporting. The delay in registering these students could result in the college not properly billing and collecting all of the tuition and fees it is owed.

Recommendation

- *The college should properly register its civil tech customized training students prior to allowing them to attend classes.*

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Chapter 4. Employee Payroll

Chapter Conclusions

Lake Superior College's internal controls provided reasonable assurance that it properly authorized and accurately reported employee payroll expenditures in the accounting records, and that payments complied with applicable legal provisions and management's authorizations. However, Lake Superior College did not resolve unreconciled differences between the assignment and bi-weekly payroll payments.

For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans. However, the college did not ensure that all employees received timely performance evaluations.

Employee payroll represents Lake Superior College's largest expenditure, totaling $ 14.6 million in fiscal year 2002. Lake Superior College employed 496 employees consisting of 98 full-time faculty, 279 part-time faculty, 26 full-time supervisory staff, and 93 full and part-time support staff. During 2002, Lake Superior College employees belonged to the following compensation plans:

- Administrative Plan
- American Federation of State, County, and Municipal Employees
- Commissioner's Plan
- Minnesota Nurses Federation
- Minnesota Association of Professional Employees
- Middle Management Association
- Minnesota State College and University Faculty

Lake Superior College maintains its human resource and payroll functions at its campus, using MnSCU's and the State of Minnesota's centralized information systems. The payroll section processes biweekly payroll transactions on the state's payroll system (SEMA4). The payroll system interfaces with the State Colleges and Universities Payroll and Personnel System (SCUPPS), which provides employment history, pay rates, and bargaining contract details for all college employees. The human resources section enters all personnel changes and new employee records onto SCUPPS.

Lake Superior College

Audit Objectives and Methodology

Our review of Lake Superior College's employee payroll expenditures focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it accurately recorded 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 material finance-related legal provisions governing payroll?

To answer these questions, we made inquiries of college staff to gain an understanding of the payroll and personnel process. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. We also reviewed the computer system security clearances for payroll and human resources personnel.

Conclusion

Lake Superior College's internal controls provided reasonable assurance that it properly authorized and accurately reported employee payroll expenditures in the accounting records, and that payments complied with applicable legal provisions and management's authorizations. However, Lake Superior College did not resolve unreconciled differences between the assignment and bi-weekly payroll payments as discussed in Finding 5.

For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans. However, the college did not ensure that all employees received timely performance evaluations, as discussed in Finding 6.

5. Lake Superior College did not resolve differences on the SCUPPS to SEMA4 error reports.

The college did not resolve differences identified by SCUPPS reports for fiscal years 2002 and 2003. The MnSCU system produces the HR8030 report for purposes of resolving differences. The HR8030 report reconciles SCUPPS assignments, cost centers, and pay disbursements and creates the year-to-date disbursement table and produces a feed to MnSCU Accounting. The reconciliation of SCUPPS to SEMA4 is a necessary control to verify that payroll expenditures were appropriate and properly recorded. We noted that differences between the two systems primarily related to faculty. Some reasons for the differences included:

- faculty working more hours than their established assignments;
- different bargaining unit sequence numbers;
- assignment dates and disbursement days that did not match; and
- SCUPPS record number did not match SEMA4.

During fiscal year 2001, the college reviewed the reports and resolved the differences. However, when the individual responsible for this procedure left the college, the college did not reassign these duties. As a result, the unreconciled items accumulated to the point that the error report for pay-period ending May 20, 2003, totaled 76 pages. It is difficult to complete the reconciliation when this many differences exist. Ideally, the university should review the error report on a pay-period basis and resolve any differences.

Recommendation

- *The college should review and resolve the differences identified on the HR 8030 report for fiscal years 2003 and continue to review the report each pay period.*

6. Lake Superior College did not consistently evaluate employee performance.

The college did not always prepare evaluations for classified and unclassified employees. We tested ten classified employees and found that two full-time and two part-time classified employees did not receive performance evaluations within the required time period. College policy required that all full-time classified employees be evaluated annually, but did not require an evaluation of part-time employees. Some compensation plans require an annual evaluation, while others may require that the state base salary increases on satisfactory progress, as shown on employee evaluations.

The college evaluated unclassified faculty on a three-year cycle. However, Minn. Stat. Sect. 43A.20 requires that civil service employees be evaluated and counseled on work performance at least once a year. While Lake Superior College has a plan for evaluating faculty, it does not comply with statutory requirements.

Recommendations

- *Lake Superior College should ensure that all classified employees receive performance evaluations consistent with Minnesota statutes and compensation plans*

- *Lake Superior College should work with the Office of the Chancellor to establish guidelines for evaluating faculty performance.*

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Chapter 5. Administrative Expenditures

Chapter Conclusions

Lake Superior College's internal controls provided reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. For the items tested, the college complied with significant finance-related legal provisions. However, we found that the college did not use written contracts for certain services.

College faculty and staff incur various operating and administrative expenditures to facilitate the educational mission of the college. Our audit focused on expenditures for purchased and consultant services, utilities, supplies, and equipment. Table 5-1 shows a breakdown of each of these expenditures by fiscal year.

Table 5-1
Selected Administrative Expenditures
Fiscal Years 2000, 2001, and 2002

Description	2000	2001	2002
Purchased Services	$1,773,254	$1,322,912	$1,364,160
Supplies	1,098,354	1,290,410	1,028,713
Equipment	569,734	449,092	160,688
Consultant/Contract Services	569,290	605,491	211,685
Utilities	347,641	426,551	414,708
Total	$4,358,273	$4,094,456	$3,179,954

Source: MnSCU Accounting.

To purchase goods or services, college departments submitted a purchase requisition to the purchasing agent of the college. MnSCU policy established dollar thresholds that required specific procurement action on the part of the purchasing agent, including bid solicitation. The purchasing agent assured the availability of funds in the appropriate cost center by initiating a system encumbrance in the MnSCU Purchase Control System. Using the Purchase Control System, the purchasing agent generated a purchase order and sent it to the vendor. After the college received the goods or services, the business office matched the invoice to the purchase order and the receiving documentation. The business office then processed the payments on the MnSCU accounting system.

Lake Superior College

Audit Objective and Methodology

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

- Did the college's internal controls provide reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization?

- For the items tested, did the college comply with significant finance-related legal provisions concerning administrative expenditures?

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 if the college properly authorized, processed, and recorded the expenditures, and if it complied with applicable finance-related legal provisions concerning administrative expenditures. In addition, we reviewed the college's process to record and track its fixed assets. Finally, we reviewed security access to determine who had the clearance to initiate encumbrances and payments in MnSCU accounting.

Conclusions

Lake Superior College's internal controls provided reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. For the items tested, the college complied with significant finance-related legal provisions. However, we found that the college did not use written contracts for certain services, as discussed in Finding 7.

7. Lake Superior College did not prepare written contracts or obtain system office approval for certain purchases.

Lake Superior College did not properly execute written contracts for consultant and contract services or obtain system office approval for contracts over $50,000. During our audit of consultant and contract services, we identified the following weaknesses:

- Our test of eight transactions found that the college did not develop written contracts for any of the sample items. These purchases ranged up to $100,000 and included the design and building of a sewer drainage system, installation of an elevator, construction of a parking lot, and professional interpreter services. The college followed a formal bidding process to select the vendor, but then used a purchase order to complete the purchase. By not using the standard contract form, there is no assurance that all of the required contract language was included.

- The college did not obtain system office approval for non-construction contracts over $50,000. The Office of the Chancellor delegated project management responsibilities to the college for construction projects. MnSCU Procedure 5.14.2, Part 2, states that, "Contracts over $50,000 require system office approval from the vice chancellor-chief financial officer." The procedure requires the colleges to submit a memorandum justifying the need for the contractor, the estimated cost, and a certification that funds are available.

Recommendations

- *Lake Superior College should use formal written contracts for consultant and contract service purchases.*

- *The college should obtain system office approval for contracts exceeding $50,000.*

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Chapter 6. Auxiliary Enterprise Revenue

Chapter Conclusions

Lake Superior College's internal controls provided reasonable assurance that bookstore and food service revenues were properly collected, adequately safeguarded, and accurately recorded 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 concerning the bookstore and food service revenues.

Lake Superior College's bookstore, food service operations, and parking fees are the main revenue activities within the college's Enterprise Fund. Parking fees were reviewed as part of our audit of tuition and fees discussed in Chapter 3. Bookstore and food service activities had separate managers, but received administrative support from the college's human resources and business offices. The vice-president of finance and administration is responsible for the financial oversight of the enterprises. The college maintains a multi-year business/finance plan for its enterprises, as required by MnSCU policy.

Bookstore

The Lake Superior College bookstore offers textbooks and a wide variety of school and personal supplies for sale. The bookstore had sales totaling approximately $928,000, $1,143,000, and $1,313,000 for fiscal years 2000, 2001, and 2002, respectively. During fiscal year 2000, MnSCU accounting showed the bookstore sustained an operating loss of $108,897. In subsequent years it adjusted its pricing policies to ensure bookstore profitability. Fiscal years 2001 and 2002 showed revenues exceeded expenditures. Students have the option of paying by cash, check, credit card, or charges to financial aid. The bookstore manager supervises one full-time employee, as well as two to five additional student workers, depending on seasonal needs. Bookstore employees perform a physical inventory count at the end of each fiscal year, and the business office adjusts the bookstore inventory in MnSCU accounting to reflect the actual inventory on hand.

Food Service

The Lake Superior College cafeteria provides meals, snacks, and beverages to college students, staff, and visitors. The cafeteria also offers catering services for college functions and other academic department events. During fiscal years 2000, 2001, and 2002, the cafeteria generated sales of approximately $190,000, $234,000, and $243,000, respectively. The cafeteria sustained operating losses during all three fiscal years, resulting in a cumulative loss of $103,347, per MNSCU accounting. The college will have to address the issue of continuous operating losses if it intends to maximize earnings for the Enterprise Fund. The food service employs five employees, including two student workers. Customers pay cash at the register, and at the end of the day, the manager closes out the cash register and forwards the monies for deposit to the business office. The college also earns food service revenue through an agreement with a local nonprofit organization for the rental of vending machines.

Audit Objectives and Methodology

Our review of the Lake Superior College's bookstore and food service operations focused on the following questions:

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

- Did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore and food service deposits and vendor procurements and payments?

To answer these questions, we interviewed bookstore, food service, and business office staff to gain an understanding of bookstore and food service operations. We tested a sample of receipt transactions to determine if the college accurately deposited and recorded the receipts in the accounting system.

Conclusions

Lake Superior College's internal controls provided reasonable assurance that bookstore and food service revenues were properly collected, adequately safeguarded, and accurately recorded in the accounting records, and that they complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning the bookstore and food service revenues.

Status of Prior Audit Issues
As of June 20, 2003

Most Recent Audits

College Audit

Legislative Audit Report 00-42, issued in September 2000, covered the period July 1, 1996, through December 31, 1999. The report reviewed material financial activities and programs, including tuition, fees, and customized training receipts, employee payroll, administrative expenditures, student financial aid, and bookstore and food service operations. The audit report contained eight findings. One of the findings pertained to federal financial aid, which was not included in our current audit scope. The college resolved the remaining seven findings.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU basic financial statements and to report on its internal controls and compliance over its major federal programs. MnSCU received an unqualified opinion for fiscal years 2001 and 2002. As a part of the audit, the firm issues a management letter to MnSCU's Board of Trustees. The letters contained comments on accounting, administrative, and operating matters. The fiscal year 2002 management letter contained one issue related to Lake Superior College.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issues 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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Lake
Superior
College
Where Tomorrow Starts Today! *2101 Trinity Road, Duluth MN 55811 ▪ (218) 733-7600 ▪ 1-800-432-2884*
Fax 733-5937 ▪ TTY (218) 722-6893 ▪ www.lsc.mnscu.edu

September 8, 2003

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

Dear Mr. Nobles,

Please find, enclosed, Lake Superior College's response to the findings in your audit report for the period July 1, 1999 through June 30, 2002. On behalf of the college I want to thank you for the valuable information your team provided us during this audit process. We appreciate, especially, the opportunity for open discussion at our exit interview about the findings, some of the broader issues raised in the audit, and our college's actions in regard to them.

We have experienced tremendous enrollment growth and change over the three year period addressed in this report. We have been challenged by the growth and change, yet we have been able to continue to be excellent stewards of the state's and our students' fiscal resources. The fact that Lake Superior College has done an outstanding job responding to these challenges and the demands of our fiscal times speaks very well of the professionalism and hard work of our Vice President of Finance and Administration, our Accountant, our business office staff, and our Human Resources department.

We are constantly seeking to improve the quality of all of our college's operations and appreciate this opportunity for your team's feedback and assistance.

Sincerely,

/s/ Kathleen L. Nelson

Dr. Kathleen L. Nelson
President

Enclosures

c: Mr. Richard Halvorson, Vice President of Finance and Administration,
Ms. Susan Davis, Accountant
Ms. Laura King, Vice Chancellor, Chief Financial Officer, MnSCU
Mr. John Asmussen, Executive Director, Department of Internal Auditing, MnSCU
Ms. Kim McLaughlin, Regional Coordinator, Department of Internal Auditing, MnSCU
The Honorable Daniel Coborn, Chair, MnSCU Board of Trustees' Audit Committee

Audit Response - Lake Superior College
September 8, 2003

Finding #1: Lake Superior College did not receive sufficient contributions from the Lake Superior College Foundation to cover administrative costs it incurred on behalf of the foundation.

Response:

The college's foundation, inactive until 1999, has been steadily developing the resources it needs in order to meet the administrative costs incurred by the college on its behalf. The foundation board has committed itself to achieving this goal within five years, by the close of fiscal year 2004-2005. The college will modify its contract with the foundation to reflect this mutually agreed upon transition period. The contract will reflect that the foundation must donate the value of administrative support received since 1999. The college will detail this support for the foundation on an annual basis.

Implementation Date: December 1, 2003
Responsible Personnel: Foundation Director, Dean of Planning and Institutional Effectiveness, Vice President of Finance and Administration

Finding #2: Lake Superior College did not properly monitor travel fees for one of its study abroad courses.

Response:

The college will undertake an examination of all travel costs, fees, and bank accounts associated with the European trips during 2001 and 2002 to determine if there were residual funds associated with either trip and to determine how those residual funds, if any, were used. The college will also work with the Office of the Chancellor to determine if a conflict of interest existed and will take appropriate action to recover travel-related funds should such a conflict be evident. The college has already revised its travel policies for this trip to bring it into compliance with all sound accounting and business practices. The Vice President of Academic Affairs and the Vice President of Finance and Administration have met to review appropriate MnSCU policies and state law in order to make the appropriate revisions to the college's policies. Current registration and fee payments are being made in accordance with the revised policy.

Implementation Date: December 1, 2003
Responsible Personnel: Vice President of Academic Affairs and Vice President of Finance and Administration

Finding #3: Lake Superior College did not deposit third party receipts in a timely manner.

Response:

The college does deposit all third party receipts and all other receipts daily once checks arrive in the business office. The college has revised its internal registration procedures to ensure that all third party payments are remitted directly to the business office prior to being handled in the Enrollment Services office.

Implementation Date: August 1, 2003 - Completed
Responsible Personnel: Vice Presidents of Finance and Administration and Student Services, Accountant

Finding #4: Lake Superior College did not register certain students prior to the completion of its civil tech customized training courses.

Response:

This finding is isolated to registration of a customized training program offered in its Civil Engineering Technology program to another state agency. All procedural changes in registration have been made to ensure that students are registered in all sections of this program prior to the start of its courses.

Implementation Date: August 26, 2003 – Completed.
Responsible Personnel: Vice Presidents of Student Services, Academic Affairs, and Finance and Administration

Finding #5: Lake Superior College did not resolve differences on the SCUPPS to SEMA4 error reports.

Response:

The college did resolve differences prior to 02 and 03. However, when an interim and then a new payroll clerk were hired, reconciliation of this one report was inadvertently missed in training. The payroll clerk did, however, resolve all payroll posting errors in default cost centers. The college has now ensured that the payroll clerk is aware of the need for reconciliation of this particular report. She is currently reviewing the fiscal year 2003 report for reconciliation and is consistently addressing the error report as a part of her normal operating procedures.

Implementation Date: September 1, 2003Completed.
Responsible Personnel: Vice President of Finance and Administration, Accountant

Finding #6: Lake Superior College did not consistently evaluate employee performance.

Response:

The college does have a formal evaluation process in place for all classified employees. However, the college's monitoring system for this process is in need of improvement. Changes have been made in the evaluation material available to all senior administrators, including the president, to ensure that all evaluations are completed in a timely manner. The college has had a faculty evaluation system in place for the past three years. It has recently been revised to be a more comprehensive evaluation system. This plan, developed through the institution's shared governance structure, is in place currently and will be modified as future discussions unfold on the campus.

Implementation Date: September 1, 2003 - Completed
Responsible Personnel: Vice President of Academic Affairs, Human Resource Director

Finding #7: Lake Superior College did not prepare written contracts or obtain system office approval for certain purchases.

Response:

The college has reviewed all appropriate MnSCU policies and applicable state law regarding the use of contracts and has trained the college's Purchasing Agent in the proper interpretation of this material. Procedures are in place to ensure that contracts are appropriately written. The college will, as recommended, seek system office approval for contracts exceeding $50,000.

Implementation Date: Contract Use: September 1, 2003 – Completed
Approval Request: October 1, 2003
Responsible Personnel: Vice President of Finance and Administration, Accountant, President