
Northwest Technical College

Financial Audit

For the Period July 1, 1995, through June 30, 1998

July 1999

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

99-36

SUMMARY

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Northwest Technical College

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Background

Northwest Technical College consists of five campuses, located in Bemidji, Detroit Lakes, East Grand Forks, Moorhead, and Wadena. Some college functions, such as tuition collections and bookstore sales, occur on each campus. For functions such as human resources and payroll, financial aid administration, and purchasing and administrative expenditures, the college has centralized its processes by assigning responsibility for the entire institution to an individual campus.

Our audit scope included a review of college financial management, the cashiering function for tuition and fees, bookstore, and other receipts, payroll, purchasing and administrative expenditures, and the laptop computer lease program for the period July 1, 1995, through June 30, 1998. We also audited the administration of federal and state student financial aid programs for fiscal year 1999.

Conclusions

Our audit found that Northwest Technical College operated within its available resources and had an effective process to monitor revenue and expenditure budgets. The college had adequate controls in place to provide reasonable assurance that most financial activities were properly recorded in the accounting systems. However, we found that the college did not record certain small account balances on the accounting system and did not provide full accrual accounting for its bookstores and laptop computer program. Also, the college did not execute contracts with certain of its service providers, including its affiliated foundations. In addition, the college did not perform certain key reconciliations.

There were several internal control issues related to cashiering, administrative expenditures, the laptop computer program, and student financial aid. The college did not maintain an adequate separation of duties within cashiering. In addition, the college did not adequately control computer access. We also noted several instances of noncompliance with federal regulations within the financial aid programs.

In its response, Northwest Technical College agreed with the audit findings and is taking corrective action to resolve the issues.



STATE OF MINNESOTA
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Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Ronald A. Swanson, President
Northwest Technical College

We have audited Northwest Technical College for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included financial management, the cashiering function for tuition, fees, bookstore and other receipts, payroll, purchasing and administrative expenditures, and the laptop lease program. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Northwest Technical College complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of Northwest Technical College is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Northwest Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 16, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 16, 1999

Report Signed On: July 12, 1999

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Audit Participation

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Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Northwest Technical College at the exit conference held on June 11, 1999:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Debbie Winter	Director of Campus Accounting
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Northwest Technical College:

Dr. Ronald Swanson	President
Pat Nordick	Director of Finance
Tom Whelihan	Director of Financial Aid

Northwest Technical College

Chapter 1. Introduction

Northwest Technical College is a regional technical college with five campuses serving the northwestern portion of Minnesota. The five campuses are located in Bemidji, Detroit Lakes, East Grand Forks, Moorhead, and Wadena. Northwest Technical College was created in 1992 when six independent school districts consolidated the administration of their technical colleges into one entity. The consolidated college included the five current campuses plus the Thief River Falls Technical College. An independent board of directors managed the consolidated college; however, each individual campus continued to provide its own services. In 1995, the State of Minnesota created the Minnesota State Colleges and Universities (MnSCU) by merging the two state systems of higher education, the state universities and community colleges, and incorporating the technical colleges. At the time of the merger, MnSCU aligned the Thief River Falls technical college campus with Northland Community College. The remaining five campuses continue to operate as Northwest Technical College.

Northwest Technical College’s mission is to “provide quality occupational education to individuals, business, industry, and society in response to a changing world.” The college has undergone tremendous change in a relatively short period of time. Within the last two years, the college has centralized various administrative functions by assigning processes to individual campuses. As shown in Table 1-1, the college has distributed responsibilities for its major financial operating cycles among all campuses.

Table 1-1
Northwest Technical College
College Financial Operating Responsibilities by Campus

<u>Campus</u>	<u>College Responsibilities</u>
Bemidji	Bank Reconciliations Laptop Computer Program
Detroit Lakes	Human Resources Financial Aid Administration Grant Accounting
East Grand Forks	Payroll Fixed Assets Customized Training
Moorhead	Centralized Accounts Receivable Cash Management (State and Federal) Financial Aid Disbursement
Wadena	Purchasing Central Accounts Payable

Source: Northwest Technical College's director of finance.

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The college has also had major changes in its administrative leadership. Dr. Ray Cross served as president from July 1992 until May 1998. Two interim presidents led the college until February 1999 when the MnSCU Board of Trustees appointed a new permanent president, Dr. Ronald Swanson.

Northwest Technical College offers students many different programs of study within five academic disciplines leading toward certificates, diplomas, or associate in applied science degrees. The five academic areas include business, applied health, applied technology, professional trades and services, and general studies. In addition, the college provides customized training services to businesses and industries in the region. The college has approximately 200 full-time faculty. Table 1-2 shows attendance at Northwest Technical College for fiscal years 1996 through 1998.

Table 1-2
Northwest Technical College
Full-Year Equivalent (FYE) Student Counts

<u>Campus</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1998</u>
Bemidji	544	510	510
Detroit Lakes	539	505	475
East Grand Forks	1,060	981	966
Moorhead	1,106	1,051	1,079
Wadena	<u>489</u>	<u>526</u>	<u>586</u>
NTC Total Enrollment (FYE)	<u>3,738</u>	<u>3,573</u>	<u>3,616</u>

Source: Northwest Technical College Human Resource Division.

Northwest Technical College is affiliated with three independent foundations, which are separate, non-profit organizations. The foundations have their own boards of directors, articles of incorporation, and bylaws. During the audit period, the foundations maintained their own financial records and accounts that were audited by CPA firms. The foundations received no staffing or other administrative support from Northwest Technical College. The foundations provided student scholarships and grants that benefit the educational mission of the college.

The financial activity for fiscal year 1998 for Northwest Technical College is shown in Table 1-3. State appropriations and tuition and fees support the General Fund activity. The Special Revenue Fund includes federal and state student financial aid. The Enterprise Fund includes financial activities from the bookstore and the laptop computer program.

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Table 1-3
Northwest Technical College
Fiscal Year 1998 Financial Activity

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>
Beginning Balance	\$2,717,877	\$34,299	\$600,991
Revenue:			
State Appropriation Allocation	17,787,065	0	0
Tuition and Fees	9,143,423	194,220	0
Bookstore Receipts	0	0	2,149,587
Laptop Computer Rentals (1)	0	0	2,279,732
Student Financial Aid	0	4,366,957	0
Federal Grants	0	1,690,405	0
State Grants	647,454	0	0
Other	<u>1,977,248</u>	<u>48,406</u>	<u>726,283</u>
Total Revenue	<u>\$29,555,190</u>	<u>\$6,299,988</u>	<u>\$5,155,602</u>
Expenditures:			
Salaries and Fringe	\$17,481,487	\$1,220,137	\$459,546
Purchased Services	1,470,505	115,775	5,798
Supplies	2,841,973	150,819	30,073
Equipment	1,111,785	370,259	4,720
Bookstore Purchases	0	0	1,924,820
Laptop Computer Contract (1)	0	0	2,377,316
Student Financial Aid	0	4,043,533	0
General Administration	<u>4,439,567</u>	<u>268,744</u>	<u>111,850</u>
Other	<u>1,112,005</u>	<u>50,579</u>	<u>198,491</u>
Total Expenditures	<u>\$28,457,322</u>	<u>\$6,219,846</u>	<u>\$5,112,614</u>
Fund Balance as of June 30, 1998	<u>\$ 3,815,745</u>	<u>\$ 114,441</u>	<u>\$ 643,979</u>

(1) This schedule shows a partial list of costs associated with the Laptop Computer Program discussed in Chapter 6. As reported in finding 12, the college has not accurately accounted for the complete costs of this program.

Note: The table is for informational purposes and only presents selected funds of the college. It is not intended to be a complete financial analysis of all college activities. The financial information is presented on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected at the close of books and compensated absence liabilities. Enterprise Fund activities do not include all operating costs such as rent, utilities, or depreciation. The fund balance includes funds for the Northwest Educational Technology System (NETS) of which Northwest Technical College is the fiscal agent

Source: Auditor prepared from the MnSCU to MAPS Trial Balance as of March 9, 1999.

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Chapter 2. Financial Management

Chapter Conclusions

Northwest Technical College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college had adequate controls in place to provide reasonable assurance that material financial activities were properly recorded on MnSCU accounting and MAPS. However, we found that the college did not record certain small account balances on the accounting system and did not provide full accrual accounting for its bookstores. Also, the college did not execute contracts with certain of its service providers, including its affiliated foundations. The college lacked security controls over access to its computerized business systems and did not adequately account for all of its fixed assets. In addition, the college did not perform certain key reconciliations.

MnSCU receives the majority of its funding for operations from General Fund appropriations and tuition and fees assessed to students. The MnSCU system office allocates state appropriations to Northwest Technical College, and all other universities and colleges, based upon an allocation formula.

Northwest Technical College uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting then interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury for certain activities. Campuses also administer certain other activities in local bank accounts, such as the bookstores and student financial aid. MnSCU requires that colleges record all local activities on MnSCU accounting to provide a complete and comprehensive view of all college finances.

Audit Objectives and Methodology

Our review of Northwest Technical College's overall financial management focused on the following objectives:

- Did the college design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?

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- Did the college design and implement internal controls to provide reasonable assurance that it had appropriate relationships with related organizations?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the program areas included within our audit scope. We also gained an understanding of management controls, such as budget monitoring and reconciliations, in place over financial activities.

Conclusions

Northwest Technical College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college had controls in place to provide reasonable assurance that financial activities were properly recorded on MnSCU and MAPS. However, there were a significant number of internal control issues related to the financial operations of the college. We identified issues related to the following general financial management areas: cash management, financial reporting, reconciliations, contracts, foundations, system security, and fixed assets. In addition, we identified internal control weaknesses in the specific areas of cashiering, purchasing and accounts payable, the laptop computer program, and in the student financial aid programs. We discuss these internal control issues in the respective chapters of this report.

1. The college was unable to reconcile the cash balance recorded on the MnSCU accounting system to the bank statements.

Since July 1998, Northwest Technical College has been unable to resolve differences between the cash balance recorded on the MnSCU accounting system and the cash in its Northwest Technical College bank account. In fiscal years 1996 through 1998, the college successfully reconciled these cash balances on a regular basis. However, since the college implemented the new student registration system in July 1998, it has not been able to successfully reconcile the cash balance recorded on MnSCU accounting and the actual cash in the bank. At the time of our audit, the college had unreconciled differences for some months and had not attempted to reconcile other months. To ensure the accuracy of accounting records, the college should continue to work to resolve these differences.

Recommendation

- *The college should review accounting records and make appropriate adjustments for the cash differences. Any future differences between accounting records and bank account activity should be identified and resolved in a timely manner.*

2. The college maintained excessive cash at NTC-East Grand Forks and NTC-Moorhead.

As of the time of our audit, NTC-East Grand Forks maintained a \$2,000 daily change fund balance in its cash register and NTC-Moorhead maintained \$1,570 in total cash register and change fund balances. Other campuses have found that \$400 for register change is a sufficient amount. NTC-East Grand Forks also maintained a \$1,000 imprest cash fund for the truck driving program. The college generally only needed \$200 to \$300 in the truck driver fund.

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Since March 1998, the fund had only been below \$800 in two months. To maximize interest earnings and lessen the risk of theft or loss, the college should only keep the minimum cash on hand necessary to conduct business each day.

Recommendation

- *The college should determine the minimum cash necessary to conduct business and deposit any excess funds in the bank.*

3. The college did not record all funds on the MnSCU accounting system.

NTC-Bemidji did not record the investment balance of its Breen Scholarship Fund on MnSCU accounting. The investment balance maintained by NTC-Bemidji for the Breen Scholarship Fund is approximately \$270,000. In addition, the Northwest Technical College campuses did not record the cash balances of their emergency loan accounts on the MnSCU accounting system. Each campus maintained a small local checking account for processing emergency loans. The college did, however, record the disbursement of scholarships and loans by individual students on MnSCU accounting. MnSCU accounting is the official financial record of the college and thus, it should be a complete record of all financial activity of the college. College administrators and MnSCU officials rely on the accounting system to provide complete and accurate information for decisions on budgeting, investing, and financial reporting

Recommendation

- *The college should record all state and local fund balances on the MnSCU accounting system.*

4. The college did not charge all applicable costs to its bookstores.

Northwest Technical College did not provide a complete accounting for its bookstore activities. The college accounts for its business-type operations, such as its bookstores, in the Enterprise Fund. The college has not charged all costs of operation, including indirect costs, to its bookstores. In order to periodically measure the self-sufficiency of the bookstores, the college should identify and measure all costs, including employee payroll, rent, utilities, depreciation, and other overhead charges. Allocating all costs would allow the college to determine an accurate net income or loss amount for each activity. Since the college did not properly charge all of the costs attributed to the bookstores against revenues, it is impossible to determine whether these operations are profitable, or to what extent the college is subsidizing them. The college, therefore, cannot make appropriate financial management decisions regarding its bookstores.

Recommendation

- *The college should prepare full-costed financial statements for its bookstores.*

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5. PRIOR FINDING PARTIALLY RESOLVED: The college did not adequately account for its fixed assets.

Northwest Technical College did not record all equipment purchases on its fixed asset inventory system, nor did it complete a physical inventory of its fixed assets for four of its five campuses. The college is responsible for controlling equipment and sensitive assets for all five campuses. The college has one staff person at NTC-East Grand Forks responsible for recording, monitoring, and counting fixed assets.

The college currently has a control structure in place to reasonably ensure that newly acquired fixed assets are secured and monitored on the MnSCU Fixed Asset Inventory system. However, the college did not implement those controls until November 1997. As a result, we observed numerous equipment purchases prior to that time that were not added to the college's fixed asset inventory. An accurate inventory of fixed assets is essential for preparing relevant financial information, as well as for tracking and securing valuable assets.

The college also did not complete a physical inventory of its fixed assets for four of its five campuses. To ensure that the college's inventory records are accurate and that all assets are accounted for, the college should have an independent person periodically compare its inventory records to the physical assets. The college had completed a physical inventory count for the Wadena campus. However, the person in charge of maintaining inventory records also conducted the count. The college has not inventoried the remaining four campuses. An individual who does not have the ability to update or change inventory records should perform the physical inventory counts.

Recommendations

- *The college should ensure that all equipment purchased prior to November 1997 is included in its fixed assets inventory.*
- *The college should periodically conduct physical inventory counts of its fixed assets and compare those results with inventory records.*
- *The college should separate the duties of individuals maintaining inventory records from those conducting physical inventories of fixed assets.*

6. The college lacked proper controls over access to its MnSCU accounting data.

Northwest Technical College did not adequately administer and control access to many modules of the MnSCU accounting system. The college has the primary authority and responsibility to determine employee access based upon job duties. However, the college did not have a process to evaluate and remove unnecessary access when job responsibilities changed, or when the access was no longer needed.

We found that the college did not change access for employees who had ended their employment or changed job responsibilities. For example, we found that employees on several campuses still had the ability to enter payment transactions, even though the college had centralized the entire payment process at the Wadena campus. In addition, we found that a former campus business manager continued to have access after leaving college employment.

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In addition, the college was aware that some MnSCU system office employees had inappropriate access to the college's data and transactions. However, the college did not actively pursue having the access justified or removed. In order to centrally manage and monitor multiple colleges and universities, some MnSCU systems office personnel may need access to the college's data to perform certain transactions. The college should periodically review the access rights of MnSCU system office employees to college data. If the college is unfamiliar with certain individuals, or knows that an individual no longer has a need for access to its data, it should question the access with a systems office security administrator.

Recommendation

- *The college should improve security access to MnSCU accounting by:*
 - *establishing procedures to remove or modify access when an employee terminates or changes job responsibilities;*
 - *modifying or removing access of current employees so that system access is in agreement with required job responsibilities; and*
 - *reviewing system office user security reports periodically to question and correct inappropriate access.*

7. Northwest Technical College did not execute formal contracts with other independent organizations, including its affiliated foundations.

The college did not execute formal contracts or written agreements with independent organizations affiliated with the college. MnSCU policy 5.5, part 2, stipulates, "...colleges are responsible for procurement of necessary goods and services and the implementation of contracts..." A written contract creates a legally binding agreement that identifies the responsibilities and obligations of each party. It should serve as a basis for allowing the college to monitor the effectiveness of the arrangement and to limit the college's liability.

In several cases, we found that campuses had arrangements with independent organizations without having formal contracts in place.

- Northwest Technical College did not execute formal contracts between the college and its related foundations. The college is associated with three independent foundations: Detroit Lakes Technical College Trust Association, Wadena AVTI Foundation, and the Moorhead Foundation. The foundations support the respective campuses of the college by providing scholarships to students. The college had developed a contract with the Detroit Lakes Association for the period July 1995 to June 1996. However, the contract was not signed and there was no evidence of renewals. MnSCU Board Policy 8.3 provides that a college should have a current, formally executed contract with foundations to identify the responsibilities and obligations of each entity. The policy requires that the contract provisions include the level of administrative support provided by the college, the value of services received from the foundation, terms of the contract, an audit clause, and access to the foundation's financial records.
- The college does not have a formal contract to serve as the fiscal agent of the Northwest Educational Technology System (NETS). NETS is a coalition of educational institutions

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in northwestern Minnesota that obtains technological services for the delivery of interactive television and other high-tech educational services. The participating institutions include Bemidji State University, Moorhead State University, Fergus Falls Community College, Northland Community and Technical College, Northwest Technical College, and the University of Minnesota - Crookston. Each participant is assessed a fee for its portion of the program's operating costs. Northwest Technical College is the fiscal agent for NETS and provides administrative and accounting support. The college records the NETS financial activity, which totaled over \$1 million in fiscal year 1998, on MnSCU accounting. The college does not receive any compensation from NETS for its services.

- NTC-Bemidji and NTC-East Grand Forks did not have contracts with the campus food service vendors. The college cannot determine if it is receiving the appropriate revenue from sales commissions. The college also cannot substantiate its rights to assets of the college or the vendor upon dissolution of the arrangement. The college has a potential risk of liability for staff and patrons using the food service facilities.
- The college does not have a written agreement for providing educational services to students at the Red Lake Indian Reservation. NTC-Bemidji conducts classes for approximately 60 students at a facility on the reservation. The classes include training for heavy equipment operation, construction electricity, carpentry, clerical, and childcare. The college provides faculty, books, and supplies for the students. The tribal council provides classroom space and utilities.

Recommendation

- *The college should formalize contracts with all affiliated organizations, including foundations, the Northwest Educational Technology System (NETS) and others. The college should monitor the terms and conditions of all contracts to ensure compliance, and that the college is receiving benefits and value to which it is entitled.*

Chapter 3. Cashiering

Chapter Conclusions

Except for the weaknesses identified below, Northwest Technical College adequately designed a system of internal controls over billing, collecting, and depositing of tuition and fees, and bookstore receipts to prevent and detect material errors and irregularities. The college also accurately recorded tuition and fee, and bookstore receipts in the MnSCU accounting system. We found, however, that the college did not control and safeguard certain cash collections, and some collections were not promptly deposited. The college also subjected itself to unnecessary security and safety risks in transporting daily cash collections. In addition, the college did not establish adequate controls over the collection of customized training receipts. Except for the prompt deposit issue cited above, the college complied with applicable finance-related legal provisions for the items tested.

Northwest Technical College collects tuition and fees at each of the five campuses. The college also operates a bookstore on each campus. Each campus collects, deposits, and accounts for tuition, fees, and bookstore revenue in a fairly similar manner. The bookstore serves as the central cashiering point on each campus. The bookstore manager also serves as the campus cashier, collecting tuition and fees, as well as making bookstore sales.

The college also collects revenue from its customized training program. This process is centralized at NTC-East Grand Forks, although individual campuses will occasionally process customized training receipts.

Audit Objectives and Methodology

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

- Did the college have adequate accounting systems in place to properly bill, collect and deposit student tuition and fees, bookstore, and customized training revenue?
- Did the college properly record tuition, fees, bookstore, and customized training revenue on the MnSCU and MAPS accounting systems?
- Did the college deposit tuition and fees in the State Treasury in a timely manner?

To meet these objectives, we interviewed college employees to gain an understanding of the internal controls over tuition, fees, and bookstore receipts. We determined the reasonableness of tuition revenue recorded on the MnSCU accounting system in relation to the recorded credits on the student information system. We reviewed student registration and accounts receivable

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records to determine if the college charged students appropriate rates and collected earned revenue. We also tested a sample of transactions to determine the timeliness of deposits and proper recording of revenue on MnSCU accounting.

Tuition and Bookstore Receipts

Each campus has a cashier, located in the campus bookstore. Each bookstore has one cash register which is used to record tuition collections, as well as bookstore sales. At the end of the day, the cashier/bookstore manager closes the register, counts the day's receipts, and forwards the cash and supporting documentation to the business office. The cashiers record tuition information directly onto the integrated student registration system (ISRS). The college as a whole recorded about \$9.3 million for tuition and fee revenue on the MnSCU accounting system for fiscal year 1998.

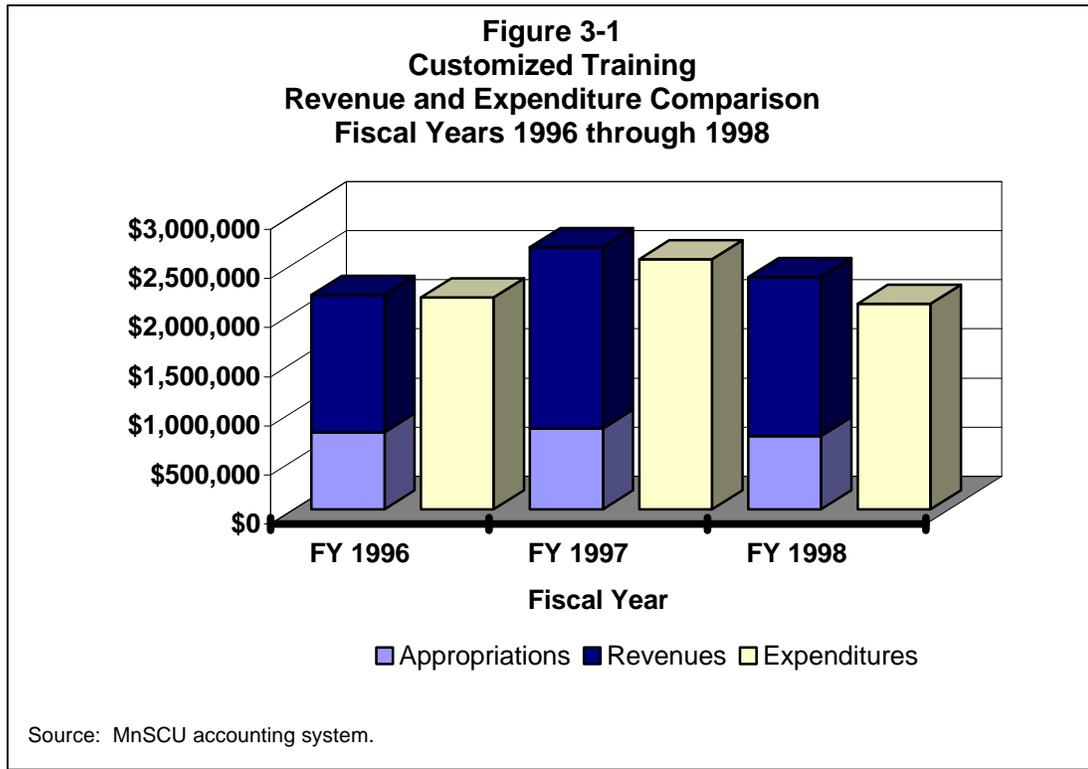
The NTC-Moorhead business office coordinates the Central Accounts Receivable (CAR) function for the college. The CAR is responsible for banking and all accounts receivable of the college. As CAR records activity, NTC-Moorhead generates tuition and fee statements to the students. The statement notifies students whether a balance is owed or an overage check is due to them. Students pay tuition and fees at their respective campuses. The payment is recorded in CAR and deposited in a local bank account.

Customized Training Receipts

The college's Customized Training Program provides educational resources that are directed toward fulfilling the needs of employers and individuals. The college contracts with employers to provide training and re-education of workers. In addition, the college offers specialized classes to public institutions, businesses, and individuals to enhance career development and fulfill continuing educational training requirements. The college's vice president of corporate and institutional relations oversees the operations of the customized training program. The college employs product marketing representatives and product directors who develop customized training courses.

The college received approximately \$4.87 million in revenue from customized training programs from July 1995 through June 1998. In addition, the college received approximately \$2.36 million of General Fund appropriations for customized training from the MnSCU system office. The college reported \$6.8 million of expenditures related to its customized training program over the same time period. Figure 3-1 compares expenditures to revenues for each fiscal year.

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Conclusions

The campuses have adequate accounting systems in place to properly bill, collect, and deposit student tuition and fee revenue and bookstore receipts. The college properly recorded tuition, fees and bookstore receipts on the MnSCU and MAPS accounting systems. However, the college did not control and safeguard certain cash collections and some collections were not promptly deposited. The college also subjected itself to unnecessary security and safety risks in transporting cash to the bank. In addition, the college did not establish adequate controls over the collection of customized training receipts. Except for the prompt depositing issue cited above, the college complied with applicable finance-related legal provisions for the items tested.

8. The college did not adequately control and safeguard certain incoming receipts.

The college did not provide adequate control over certain receipts. At some campuses, certain receipts were not recorded before being deposited, and deposits were not made timely. In addition, the college subjected itself to unnecessary security and safety risks in transporting cash collections to the bank. In some cases, the campuses did not adequately train a back-up person to perform critical cashiering duties when the primary employee was absent.

NTC-Moorhead, Detroit Lakes, and Bemidji did not adequately control all collections of tuition and fee receipts and miscellaneous deposits. The three campuses collected tuition and fee receipts and miscellaneous deposits in both the bookstore and the business office. However, only the campus bookstore has a cash register. As a result, the campuses did not properly record

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incoming receipts that were not collected at the campus bookstore. The college incurs increased risk of lost, stolen, and unaccounted for receipts when collections are not centrally recorded and controlled. All campuses should minimize the number of collection points for incoming receipts and should make a written record of all receipts. The East Grand Forks and Wadena campuses accomplish this by requiring all tuition and fee receipts and miscellaneous deposits to enter the system through the bookstore cash register.

NTC-Moorhead, Detroit Lakes, and Bemidji did not deposit tuition and fee receipts into the state depository in a timely manner. NTC-Moorhead did not cross-train employees in the business office to effectively assume the critical responsibilities of the account clerk responsible for making deposits. As a result, tuition and fee receipts and miscellaneous deposits remained unprocessed over a period of about two weeks when the account clerk was on vacation. We also noted that NTC-Detroit Lakes and Bemidji did not consistently comply with the prompt deposit provision. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily in the state treasury if they total \$250 or more. Daily depositing of incoming receipts minimizes the risk of lost or stolen funds and maximizes investment earnings for the state.

In addition, the college did not deposit endorsed FFEL loan checks in excess of \$250 daily. The CAR office received FFEL loan checks and forwarded them to the bookstores at each campus, where students endorsed them. The college bookstore managers returned the endorsed FFEL loan checks back to the CAR office, rather than depositing them. The CAR office employees did not deposit endorsed FFEL loan checks more than once per week. We reviewed eight deposits of FFEL loan checks from December 1998 to March 1999. For the eight we reviewed, the lag time between deposits ranged from 4 to 23 days.

The college did not use a courier service to transport the daily deposits to the bank, but rather relied on various employees to conduct the task at each campus. The use of college employees to transport significant cash receipts is an inappropriate security and safety risk. The college should consider using a courier service or, at minimum, vary the schedules of those transporting deposits to the bank.

Finally, the NTC-Detroit Lakes and Bemidji campus bookstores simply closed when the cashier was absent. By cross-training employees, the college can provide continuous service to its customers and ensure that critical cash functions are performed.

Recommendations

- *The college should provide a written record of all incoming receipts which are not processed through the cash register.*
- *The college should promptly deposit tuition, fees, and FFEL checks daily, as required by state law.*
- *The college should consider the use of a courier service to transport significant cash deposits to the bank.*
- *The college should cross-train employees to effectively assume the critical functions of absent accounting and cashiering personnel.*

Northwest Technical College

9. PRIOR FINDING NOT RESOLVED: The college did not establish adequate controls over the collection of customized training receipts.

The college did not adequately segregate duties related to customized training receipts and did not perform a key reconciliation for these receipts. The college collected approximately \$4.9 million for customized training from July 1995 through June 1998.

The college did not provide an adequate separation of duties over the customized training receipts. The college had one individual who invoiced customers, tracked receivables, collected receipts, and posted payments to the billing and accounting systems. This person worked outside the college's central receivable office. In addition, the college did not reconcile the total payments for customized training that were applied against invoices on its billing system with the total amount shown as collected on its accounting system. The inadequate segregation of duties and lack of an independent reconciliation increases the risk of errors or irregularities being undetected.

Recommendations

- *The college should separate incompatible functions between the billing, collecting, and accounting of customized training receipts. The college should consider having all customized training payments sent to its centralized receivable office.*
- *The college should reconcile MnSCU accounting deposit totals to payments applied to invoices on the college's customized training billing system.*

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Chapter 4. Payroll

Chapter Conclusions

Northwest Technical College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Northwest Technical College has a joint payroll and human resources department responsible for maintaining employee and payroll information in two different computer systems. The college monitors employee appointment information, personnel files, and pay rates in the State College and University Personnel Payroll System (SCUPPS). It is also responsible for recording the hours worked and employee leave records in the State Employee Management System (SEMA4) every two weeks. The college converted to SEMA4 from the previous Personnel Payroll System (PPS) in October 1996.

Table 4-1 shows the various bargaining units and number of employees represented at the college. The college spent a total of \$19,161,170 on employee salary and fringe benefits in fiscal year 1998.

Table 4-1
College Employee Bargaining Units
Fiscal Year 1998

<u>Bargaining Unit</u>	<u>Employees</u>
United Technical College Educators (UTCE)	225
American Federation of State County and Municipal Employees (AFSCME)	141
Minnesota Association of Professional Employees (MAPE)	41
Middle Management Association (MMA)	10
Excluded Administrators and others	19
Commissioner's Plan	6
Minnesota Nurses Association	<u>1</u>
Total Employees	<u>443</u>

Source: Northwest Technical College records.

Audit Objectives and Methodology

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

Northwest Technical College

- Did the college design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records?
- Did the college's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To answer these questions, we made inquiries of the college's staff to gain an understanding of the payroll and personnel processes. We visited the Human Resources Department at Detroit Lakes, and the Payroll Department in East Grand Forks. We tested a sample of payroll transactions to ensure that there was proper documentation for those transactions. We reviewed compensation paid to employees and ensured that it agreed with amounts recorded on the State Colleges and Universities Personnel/Payroll System (SCUPPS). We also reviewed severance payments to determine if the payments appeared reasonable and accurate.

Conclusions

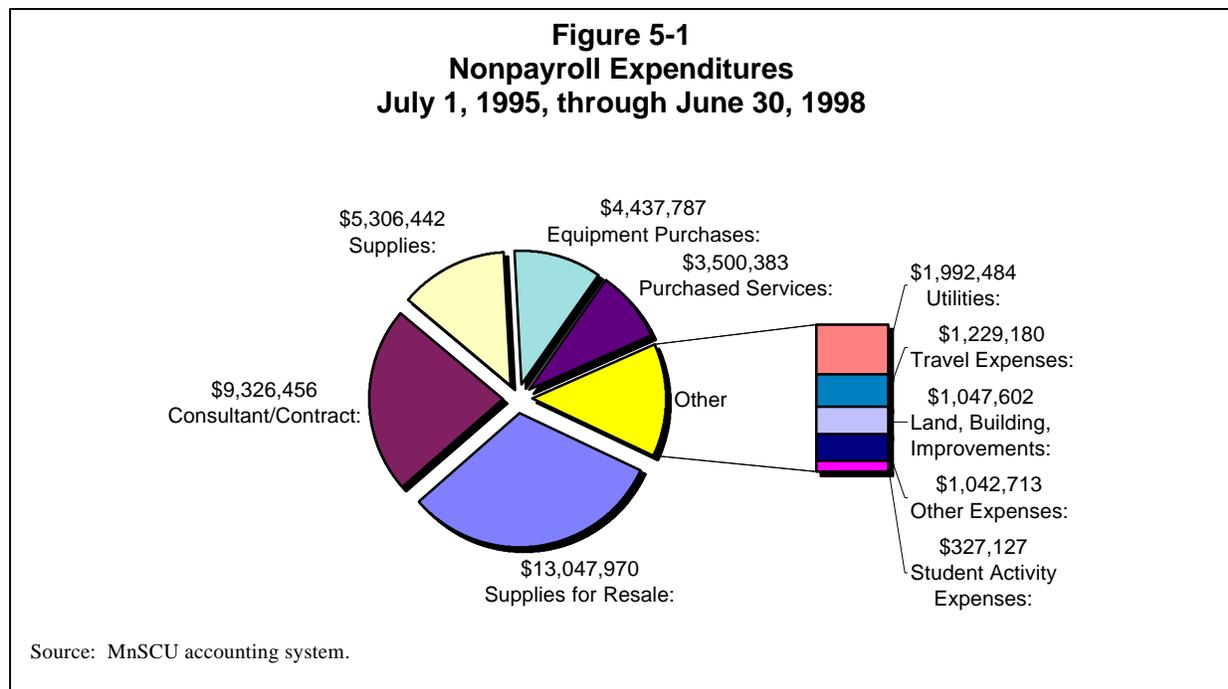
Northwest Technical College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Chapter 5. Purchasing and Administrative Expenditures

Chapter Conclusions

Northwest Technical College designed and implemented controls to ensure that purchases and nonpayroll disbursements are properly approved and in compliance with applicable legal provisions. However, the college did not consistently use the appropriate object codes or occurrence dates when recording transactions. The college also paid some invoices without adequate documentation. The college did not adequately secure all delivered supplies and equipment. In addition, as noted in Chapter 2, some employees have inappropriate access to the accounts payable portion of the MnSCU accounting system based on their job responsibilities.

Northwest Technical College’s nonpayroll expenditures include payments for supplies and equipment, purchased and contracted services, utilities, travel, repairs and betterments, and items for resale in the bookstore. The college disbursed over \$41 million during our three-year audit scope for nonpayroll expenditures. Figure 5-1 shows how the college spent its funds.



Prior to fiscal year 1997, each campus was responsible for its own purchasing and payment of invoices. The college centralized this process in July 1997 when it established the Central Accounts Payable (CAP) office. The CAP office is located at the Wadena campus. All

Northwest Technical College

purchasing and payments for nonpayroll expenditures of the college must be processed through the CAP office.

To facilitate the purchasing process, the college actively uses the Purchasing Control System (PCS) module of the MnSCU accounting system. The PCS module encompasses an electronic process for requesting and authorizing purchases. Individual campuses initiate the purchasing process. The CAP office orders goods and ultimately processes the payments on the MnSCU accounting system. The CAP office requires a three-way match of purchase order, receiving report, and invoice to process the payment. Each campus is responsible for establishing controls for receiving its own goods.

For routine payments, such as utilities and postage, each campus business manager reviews the invoices, completes a direct payment form, and submits the documentation to the CAP office for processing.

Audit Objectives and Methodology

The primary objective of our review of administrative expenditures were as follows:

- Did the college design and implement internal controls to provide reasonable assurance that its nonpayroll expenditures were appropriately authorized, accurately reported in the accounting records, and in compliance with applicable legal provisions?
- Did the college comply with applicable legal provisions for the items tested?

To meet these objectives, we interviewed college personnel to gain an understanding of the procurement and disbursement processes. We reviewed a sample of expenditures to determine if the college properly authorized, processed, and recorded the expenditures. We also reviewed the sample items to determine if the college complied with applicable legal provisions.

Conclusions

Except as noted below, Northwest Technical College designed and implemented internal controls to provide reasonable assurance that its nonpayroll expenditures were properly approved, accurately reported in the accounting records, and in compliance with applicable legal provisions. As discussed below, the college did not consistently use object codes or occurrence dates when recording transactions. The college also paid some invoices without adequate documentation. Finally, the NTC-Bemidji campus did not adequately secure all delivered supplies and equipment.

10. Northwest Technical College did not properly code certain transaction information into the accounting system.

Northwest Technical College did not accurately and consistently record its expenditure transactions into the MnSCU accounting system. The college used incorrect occurrence dates and, in some cases, posted transactions to inappropriate object codes.

Northwest Technical College

The college did not properly use the occurrence date field. The occurrence date refers to the date on which the college received the goods or services and incurred an obligation to pay for them. The college often used the date that transactions were paid, rather than the date the college incurred a financial obligation. The use of incorrect occurrence dates can cause transactions to be posted to the wrong accounting period, which would make accounting records inaccurate.

The college also posted many transactions to inappropriate or inconsistent object codes. For example, one campus coded work-study payments as “supplies purchased for resale.” In another case, a campus coded rental of Central Motor Pool vehicles to “lease rentals”, rather than using the specific object code set up for those payments. Improperly coded transactions affect the accuracy and usefulness of the accounting data.

Recommendation

- *The college should use proper object codes and occurrence dates on a consistent basis when recording financial information.*

11. The college did not adequately control and document the receipt of goods and services.

Northwest Technical College did not always properly document the receipt of supplies and services that it purchased. In addition, one campus did not provide a secure storage area for receiving incoming supplies and equipment.

The CAP office requires a three-way match consisting of a purchase order, receiving report, and an invoice before it can pay a bill. The college did not always document when goods and services were received, and thus, the CAP office paid invoices that did not have complete support. Poor documentation of the receipt of goods and services can result in invoices being paid for goods and services that were not actually received. We also found one instance in which the college paid a \$990 invoice twice. Requiring adequate documentation of receipt of goods may have prevented this situation.

In addition, the NTC-Bemidji campus did not have a secured receiving area for the delivery of supplies and equipment. The college’s vendors ship purchases to the individual campus that ordered the goods. We found that NTC-Bemidji allows packages to be picked up and delivered to an unlocked and unattended room. During our audit fieldwork, a shipment of computers were delivered to this area and sat unattended for an extended period of time. The lack of security over these supplies and equipment could result in theft or damage to valuable resources.

Recommendations

- *The college should require a proof of receipt for all goods purchased before making payments.*
- *NTC-Bemidji should secure its receiving area and promptly forward goods to the appropriate individuals.*

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Chapter 6. Laptop Computer Program

Chapter Conclusions

Northwest Technical College operates a unique program in which it leases laptop computers to students and staff. We found that the college has implemented a control structure to:

- *ensure the accurate payment of laptop computer lease obligations;*
- *provide reasonable security of its laptop computers; and*
- *ensure that laptop fees are properly collected.*

However, the college did not properly account for its laptop computer program within the college's Enterprise Fund. Because of a lack of accurate accounting for the laptop lease program, the college has not been able to analyze whether the program is profitable or cost beneficial. In addition, it did not perform key revenue reconciliations for this program.

Northwest Technical College operates a unique program known as its "laptop lease program." During the audit period, the college leased between 2,000 to 3,000 laptop computers from International Business Machines (IBM) Credit Corporation, at a cost of approximately \$2 million per year. The college then sublet the laptops to students, staff, and faculty.

The college developed the laptop lease program during the 1994-95 school year and began leasing laptops during the fall quarter of 1995. The college designed the program to provide its students with a tool that it believed was essential for educational purposes and that produced advanced technological skills for employment. In addition, those employees of the college that travel between its five campuses use the laptop computers because of their mobility.

The college's intent that the cost of providing the laptop computers be financed or recovered primarily through fees charged to users. The college requires all students enrolled in programs with declared laptop requirements to lease or possess a laptop computer that meets the needs of the program and is compatible with the college's network specifications. The college automatically charges a laptop fee to student accounts when they register for courses that have a laptop requirement. During the 1998-99 academic year, the college charged students either \$325 or \$500 per semester for a laptop, depending on the type of computer being leased. The college collects this payment when the students pay their tuition and fees. The laptop program also charges the same fees to the budgets of those faculty and staff that use a laptop. If a student owns their own laptop, they may have the laptop fee waived.

During our audit period, the college leased approximately 2,800 IBM computer laptops each year. The college subleased approximately 1,855 to students, and college staff used 465;

Northwest Technical College

therefore, the college averaged 480 idle laptops. The college was required to make lease payments to IBM for the full fleet of computers, including any idle laptops.

Audit Objectives and Methodology

Our review of the laptop lease program mainly focused on the following questions:

- Did the college subsidize the laptop lease program with any funds other than user fees?
- Did the college design and implement internal controls to provide adequate security over its laptop computers?
- Did the college design and implement internal controls to provide reasonable assurance that financial transactions for the laptop lease program were properly recorded on the accounting system?

To answer these questions, we interviewed college personnel to gain an understanding of the program. We reviewed the college's contractual agreements with IBM and sublease agreements with NTC students. We reviewed various accounting transactions to determine if the college had properly recorded revenues and expenditures. We reviewed the college's inventory system and tested a sample of laptops to determine the accuracy of the inventory records.

Conclusions

We found that the college had not accurately accounted for the laptop lease program. We estimated that the college paid IBM Credit Corporation nearly \$5.4 million for the lease of laptop computers between July 1, 1995, and June 30, 1998. As discussed in Finding 12, the full cost of operating this program is unknown. We noted that the college did not pay all salaries and indirect costs associated with the program from laptop revenues. Because of this, the college has not been able to analyze whether the program is profitable or cost beneficial. During the audit period, the college transferred \$350,000 of General Fund resources to help pay for the laptop lease program.

The college received approximately \$6 million in laptop user fees over the audit period. However, accurate information about how much was received from students and how much the college paid for laptops leased to staff and faculty was not readily available. We estimated that the college paid approximately \$1.5 million to lease laptops for its faculty and staff during the three-year period.

We found that the college developed and implemented a control structure to reasonably monitor the inventory of laptop computers. Unfortunately, laptop computers are highly desirable assets. Despite its efforts, the college had reported approximately 155 laptops lost or stolen during the one-year period from November 1997 through October 1998. The college has implemented a process through the local police departments to pursue lost or stolen laptops.

The college designed and implemented controls to ensure that payments for laptops were accurate and that the college collected the appropriate laptop rental fees. However, as discussed below, the college could improve its controls by reconciling laptop fees collected to expected program revenue.

Northwest Technical College

12. The college did not adequately account for the activities of its laptop computer program.

The laptop lease program has certain unique accounting issues that the college has not addressed. For example, the college has not properly classified its lease arrangements, either with its vendor or with the students or staff. Pursuant to generally accepted accounting principles, these leases must be classified as either operating or capital leases. The distinction is important from a financial perspective, because it affects the valuation of the assets in the financial records. However, the college has not made that determination.

In addition, the college's inaccurate coding of transactions in the accounting system affected laptop lease payments. For example, one campus coded laptop rental payments as "capital leases." Another campus coded computer purchases as "computer hardware for resale" or as "electronics." Because of the lack of proper system coding, the college was unable to isolate the costs of stolen, lost, or broken computers.

Finally, the college did not allocate all related costs to the laptop program. For example, payroll costs relating to certain employees who work on the program part-time did not have a portion of their payroll costs allocated to the laptop program. The college also had not charged other costs, such as depreciation and space rent, to the program.

As a result, the college was unable to accurately determine the total costs of operating the laptop computer program. Without accurate and consistent data being recorded on the accounting system, the college cannot rely on the information for making accurate financial decisions concerning the program.

Recommendations

- *The college should review the accounting principles associated with leases and ensure that it is adequately accounting for and reporting its laptop lease agreements. If necessary, the college should consult with the MnSCU system office for assistance in how to properly code the college's lease transactions.*
- *The college should ensure that it records transactions in the accounting system in a way that facilitates statewide financial reporting.*

13. The college did not reconcile laptop fees collected to expected program revenue.

The college did not reconcile the amount of laptop fees it collected to the expected amount of revenue from the program. The college monitored the number of laptop computers being subleased on a monthly basis. However, the college did not verify the reasonableness of receipts by comparing the actual revenues to expected fees based on the number of leased laptops. By not performing a reconciliation or revenue analysis, the college cannot be certain that the college has distributed an appropriate amount of fee revenue to this program.

Recommendation

- *The college should periodically review its laptop rental revenue and reconcile actual receipts to projected revenues.*

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Chapter 7. Student Financial Aid

Chapter Conclusions

Northwest Technical College designed and implemented internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. The college also designed and implemented internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and accurately reported to the federal government. However, the college should improve controls by adequately separating duties in certain areas, and by safeguarding certain financial aid checks.

We found certain instances where the college did not comply with federal financial aid regulations. In one case, the college overpaid financial aid to a student. In addition, the college paid aid to students who failed to meet satisfactory academic progress and did not establish certain required financial aid policies.

The college participates in the following federal student financial aid programs administered by the U.S. Department of Education:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Program (includes Stafford subsidized and unsubsidized loans) (CFDA #84.032)
- Federal Work Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)

In addition, the college administered the Minnesota State Grant (MNSG) Program and the Student Educational Loan Fund (SELF) Program.

The college generally provides students with the federal Pell Grant as the first source of assistance. Since the federal government did not limit Pell Grant awards to the college, all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 1998-99 award year equaled \$3,000.

Under the FFEL Program, private lenders provide the loan principal to eligible students, and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

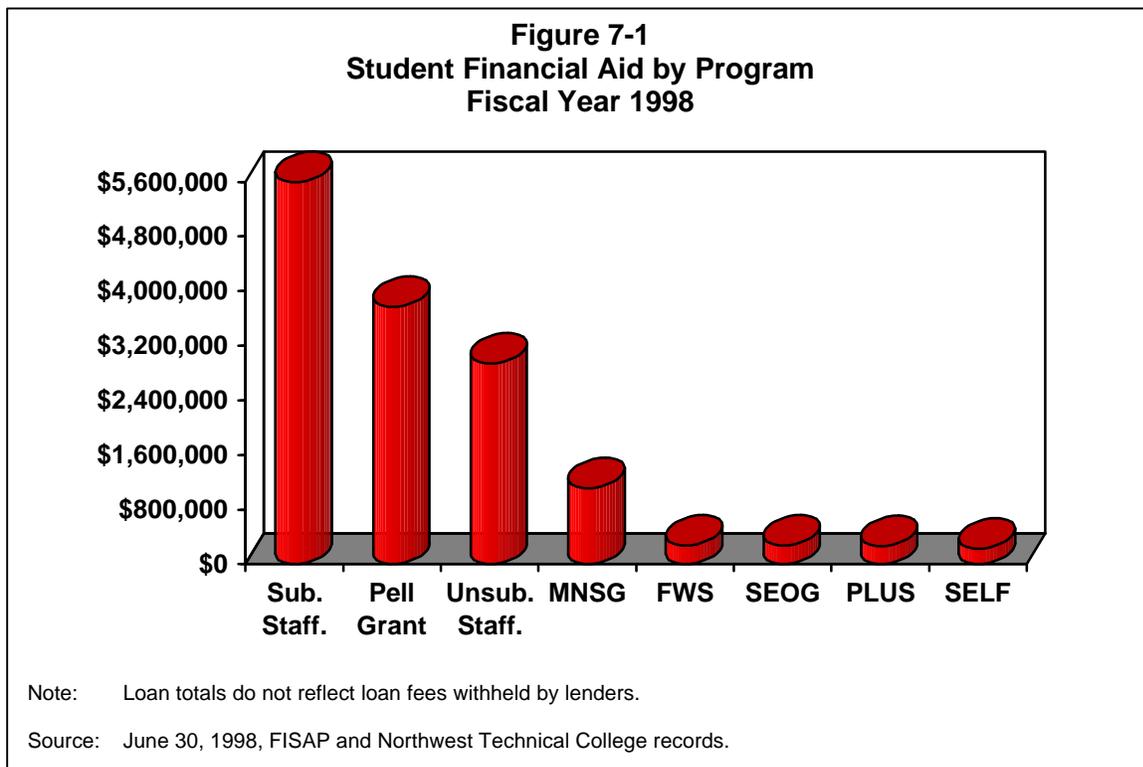
Northwest Technical College

Under the FWS Program, students work at on or off campus jobs. The college pays these students \$6.25 an hour. Students may earn a total amount not to exceed their FWS award.

The college awards SEOGs to students with exceptional financial need. For SEOG, the college defines exceptional need as students with an expected family contribution (EFC) of \$0.

The Higher Education Services Office establishes the eligibility criteria for the MNSG and SELF programs and provides funds to the college. The college awards MNSGs to students who are Minnesota residents and have financial need. The student's registered number of credits and Pell Grant award determines the amount of the MNSG.

We reviewed each of these programs. Figure 7-1 shows financial aid expenditures by program for fiscal year 1998.



The college processed financial aid separately at each of its five campuses until July 1996, when it centralized the financial aid function. The college assigned the financial aid packaging and awarding function to the Detroit Lakes campus and the financial aid disbursement function to the Moorhead campus. The director of financial aid and four assistants work at the Detroit Lakes campus. The college also employs five assistant financial aid directors, with one located at each campus. The current director of financial aid joined the college in March 1997.

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Audit Objectives and Methodology

Our review of the college's student financial aid programs focused on the following questions:

- Did the college design and implement internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts?
- Did the college design and implement internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable federal and state regulations?
- For the items tested, did the college comply with applicable federal regulations over federal cash management and reporting?

To address these questions, we evaluated and tested controls over compliance for determining student eligibility, and over packaging, awarding, disbursing, and recording federal and state financial aid. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

Conclusions

The college designed and implemented internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. The college also designed and implemented internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and accurately reported to the federal government. However, we did identify some areas where the college could improve internal controls and the security over financial aid funds. These issues are discussed in Findings 15 and 16.

We found instances of noncompliance with federal regulations. In one case, the college overpaid financial aid to a student. In addition, the college paid aid to students who failed to meet satisfactory academic progress and did not establish certain required financial aid policies. These issues are discussed in Findings 14, 17, and 18.

14. The college overpaid financial aid to a student.

. A student received approximately \$865 more aid than she was entitled to after information the student reported on the financial aid application changed. The student stated on the verification form that her husband would attend Northwest Technical College. However the husband never enrolled for classes at the college. That left only one family member in college, affecting the student's expected family contribution (EFC). Since Pell Grant awards are based on the student's EFC, the employee received a higher Pell Grant, based on the incorrect information. The college did not attempt to verify the husband's enrollment, so it did not identify the error. In addition, the student did not notify the college of the change in the number of household members in college, as required in the Federal Student Assistance General Provisions, Section 668.55.

Northwest Technical College

The college must recalculate the student's award, based on this additional information. Section 690.80 of the federal regulations for the Federal Pell Grant Program states:

The institution shall recalculate a Federal Pell Grant award for the entire award year if the student's expected family contribution changes at any time during the award year.

This overpayment presents additional risk because the student was also an employee of the Detroit Lakes financial aid office. Although the college obtained documentation from the employee to verify certain information, it did not perform any additional procedures on the financial aid files. To limit the risk, the college should scrutinize employee financial aid files at a higher lever and expand its procedures to verify all information that could affect financial aid awards. The director of financial aid should closely review any awards to college employees.

Recommendations

- *The college should scrutinize the student file of any employee eligible for financial aid and verify all information that could affect financial aid awards. The director of financial aid should closely review all awards to employees.*
- *The college should recalculate the questioned financial aid award based on the appropriate information and collect the overpaid amount from the student.*

15. Financial aid employees had inappropriate access to certain financial aid checks.

Financial aid staff have access to work-study and loan checks, providing an inadequate separation of duties. The college allowed the assistant financial aid directors at the Bemidji, Detroit Lakes, and Wadena campuses to award federal work-study, collect timesheets, and have access to student work-study paychecks. In addition, the financial aid staff awarded SELF loans and also had access to SELF loan checks.

The assistant financial aid directors award federal work-study to students at their respective campuses. On the Bemidji, Detroit Lakes, and Wadena campuses, these same individuals also collect student worker timesheets to verify that student earnings do not exceed awards. The assistants submit the timesheets to the payroll office at the East Grand Forks campus for processing. The payroll office generates work-study paychecks and returns them to the financial aid assistants at each campus for distribution. These are incompatible functions that should be separated.

The college has a higher risk of not detecting the misuse of funds by allowing the same staff to award financial aid and have access to the financial aid funds to be disbursed. To limit this risk, staff responsible for awarding and monitoring work-study and SELF loans should not have access to student paychecks or SELF loan checks.

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Recommendations

- *The college should not allow assistant financial aid directors to have access to work-study paychecks.*
- *The college should not allow financial aid staff to have access to SELF loan checks.*

16. PRIOR FINDING NOT RESOLVED: The college did not adequately safeguard certain financial aid funds.

The college did not safeguard student paychecks at the Moorhead or Wadena campuses. The employees with custody of the paychecks kept them in an unsecured desk or cabinet. In addition, NTC-Moorhead did not require students to show proper identification before disbursing work-study paychecks. NTC-Moorhead also did not safeguard FFEL loan checks in the bookstore or at the central accounts receivable office. The college stored checks in unlocked file cabinets or on a desk.

Storing financial aid funds in unsecured locations increases the risk of theft. Disbursing financial aid funds to students without requiring them to show identification increases the risk of disbursing funds to the wrong person. To limit these risks, the college should store financial aid funds in locked safes, cabinets, or drawers. The college should require students to show identification in order to obtain financial aid checks.

Recommendations

- *The college should store financial aid funds not yet disbursed in locked safes, cabinets, or drawers.*
- *The college should require students to show identification in order to obtain financial aid disbursements.*

17. The college improperly provided financial aid to some students who failed to meet satisfactory academic progress standards.

The college provided financial aid to some students who were not eligible for aid because they failed to meet satisfactory academic progress (SAP) standards as of the end of the 1998-99 fall semester. The college did not properly identify the eligibility of certain students because the SAP monitoring function within the new Integrated Student Registration System (ISRS) was not available at the end of the fall semester. Instead of obtaining computer-generated reports listing all students who failed to meet SAP standards, registrars had to manually review student records. When the SAP monitoring function in ISRS became available in mid-February, the Moorhead campus registrar identified six students and the Detroit Lakes campus registrar identified one student who should have been suspended but were not. The college had allowed these students to continue to attend classes in spring semester and receive financial aid.

Federal regulations require the college to uniformly apply its SAP policy to all students. However, the college suspended some students who failed to meet SAP standards but did not

Northwest Technical College

suspend other students with similar academic records. Although we understand the circumstances that caused these errors, the college may need to repay any financial aid disbursed to ineligible students.

Recommendation

- *The college should identify all students attending class and receiving financial aid in the 1999 spring semester that should have been suspended for failure to meet SAP standards and thus, ineligible for aid. The college should work with the U.S. Department of Education to determine the amount of overpayments for these students.*

18. PRIOR FINDING NOT RESOLVED: The college did not establish certain financial aid policies in compliance with federal regulations.

The college did not establish written policies and procedures for awarding federal workstudy and SEOG. As 34 CFR Section 675.10(b) states for federal workstudy, “An institution shall establish selection procedures and those procedures must be uniformly applied, in writing, and maintained in the institution’s files.” The 1998-99 Federal Student Financial Aid Handbook states, “A school must develop written selection procedures to ensure that SEOG recipients are selected on the basis of the lowest EFC [expected family contribution] and Pell Grant priority requirements over the entire award year in accordance with the selection procedures found in 34 CFR 676.10.”

In addition, the college did not include all required components in its written satisfactory academic progress policy. The policy did not explain how withdrawals, “incomplete” grades, repeated courses, and noncredit remedial coursework affect the determination of academic progress. The 1998-99 Federal Student Financial Aid Handbook requires that this information be incorporated into the school’s satisfactory academic progress policy.

Recommendations

- *The college should establish written selection policies and procedures for awarding federal workstudy and SEOG.*
- *The college should update its satisfactory academic progress policy to include all required components.*

Status of Prior Audit Issues As of April 16, 1999

Most Recent Audits

Legislative Audit Report 99-19, issued in March 1999, covered activities material to the state's general purpose financial statements for the year ended June 30, 1998. It included the testing of federal programs to determine compliance with federal requirements. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. The report identified one issue related specifically to Northwest Technical College. The finding stated that the college had written Carl Perkins emergency assistance checks to students, which federal regulations do not allow. We will determine the status of this issue during our audit of the state's financial statements for the year ended June 30, 1999.

Legislative Audit Report 98-16, issued in March 1998, covered the material federal financial aid programs administered by the State of Minnesota in fiscal year 1997. This report did not include any findings related specifically to Northwest Technical College.

Legislative Audit Report 97-29, issued in March 1997, covered the material federal financial aid programs administered by the State of Minnesota in fiscal year 1996. This report contained two findings specifically related to Northwest Technical College. The first issue reported an overpayment of federal financial aid to a student that did not meet the Satisfactory Academic Progress standards. As of March 1999, the college had not resolved this issue with the federal government or repaid the federal funds. The college has resolved the second issue related to adjustments in the cost of attendance budgets.

Other Audit History

Legislative Audit Report 96-35, issued in August 1996, covered the transition of technical colleges into state government. This report included an audit of the business systems and the transfer of technical college assets to the state, payroll, tuition and fees, and student financial aid. The report included a significant number of issues related to Northwest Technical College; several issues remain unresolved. The college has not taken a complete physical inventory of its fixed assets, as discussed in Finding 5. The college did not promptly deposit all tuition and fee revenue as discussed as part of Finding 8 and had weaknesses in the collection of customized training receipts as discussed in Finding 9. The college did not provide an adequate safeguarding of financial aid checks as reported in Finding 16. Finally, the college did not include all federal requirements in its satisfactory academic progress policy as discussed in Finding 18.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial aid reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of the 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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July 6, 1999

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report for Northwest Technical College for the period of July 1, 1995 through June 30, 1998. Our formal written response to the audit finding is attached.

I want to thank Jeanine Leifeld, audit manager; Michael Hassing, auditor-in-charge; and the entire audit team for the thorough and professional manner in which they performed the audit. The team members were very courteous and efficient in their work. They were very helpful in working with the entire staff in resolving findings and audit issues.

During the period of time covered by the audit the College went through many major changes including becoming a part of MnSCU, college reorganization, bringing on the laptop program, and centralizing many business functions. By centralizing our business functions, we were able to gain efficiencies of scale and allow employees to gain more expertise in the area of finances that they oversee. We feel that this system does work well for the college but it did cause us to change many business practices and policies. We feel these changes have now stabilized. The audit findings provide us with useful information and feedback to assist us in our continuous quality improvement efforts. We feel that we have made significant progress in resolving the audit findings.

Please contact me if you have any questions regarding our response to the audit findings.

Sincerely,

Dr. Ronald Swanson
President

NORTHWEST TECHNICAL COLLEGE
Response to Legislative Audit Findings
July 6, 1999

Finding 1. The college was unable to reconcile the cash balance recorded on the MnSCU accounting system to the bank statements.

Prior to going on the MnSCU accounts receivable module in August 1998, Northwest Technical College had been able to complete a monthly reconciliation between the MnSCU accounting system and our bank statements. Once we began to use the student accounts receivable module we had great difficulty in performing this reconciliation due to the extraordinary amount of data and the lack of proper reports programmed into the module. Since the completion of the audit field work, the college has been able to reconcile MnSCU accounting with our bank statements through May 1999 and will continue to do a monthly reconciliation on a timely basis.

Responsible person: Pat Nordick
Projected Completion Date: Implementation Completed

Finding 2. The college maintained excessive cash at NTC-East Grand Forks and NTC-Moorhead.

The daily change funds on the East Grand Forks and Moorhead campuses will be reduced to have a balance of \$ 500.00 on each campus. The East Grand Forks campus will reduce the truck driving petty cash fund to \$ 500.00.

Responsible person: Brad Kennedy and Dawn Booen
Projected Completion Date: August 1, 1999

Finding 3. The college did not record all funds on the MnSCU accounting system.

The Breen Scholarship Fund was formed through a donation to the college, which is to be kept in perpetuity and the interest to be distributed to students attending the Bemidji campus. The college is the manager of the fund. Northwest Technical College will record the principal balance of the fund on the MnSCU accounting system.

Responsible Person: Judy Rinkenberger
Projected Completion Date: August 31, 1999

Finding 4. The college did not charge all applicable costs to its bookstores.

The college will do full cost accounting for the bookstore operation to insure all direct and indirect costs are expensed against the enterprise fund. We will ensure all financial statements are completed annually. The cost allocation module being developed by MnSCU will greatly assist with this effort.

Responsible Person: Pat Nordick
Projected Completion Date: October 31, 1999

Finding 5. The college did not adequately account for its fixed assets.

Northwest Technical College has implemented an extensive fixed asset process to ensure that all fixed assets are inventoried, tagged, and reconciled with the MnSCU accounting system on a timely basis. Using the MnSCU fixed asset system we showed that all items were included in the physical asset inventory.

However, the legislative auditors, by using database software were able to identify items that were not listed as unreconciled. These items have since been added to the fixed assets inventory system. The physical inventory process will be conducted by the campus business office with consultation from the fixed asset account clerk thus rectifying the separation of duty conflict. A physical inventory will be completed for the Detroit Lakes campus in July with the other three campuses being completed by the end of the fiscal year 2000.

Responsible person: Karla Selk and Dawn Booen
Projected Completion Date: June 30, 2000

Finding 6. The college lacked proper controls over access to its MnSCU accounting data.

In July 1998, Northwest Technical College centralized many functions so that they were performed by one campus for the entire college. By doing this, we removed many separation of duty problems. Prior to centralizing these functions, clerks on each campus had many duties and therefore required rights in many of the accounting security groups. In the transition from campus to college functions the security rights of many of the accounting personnel were not update. Northwest Technical College will update the rights of the accounting personnel to ensure they only have access to areas they need for their daily responsibilities. In addition, Northwest Technical College is working with MnSCU system office personnel to determine which system office employees need security access to view our data. Also, the college has implemented a check-off process for computer access as part of our exit interview for employees leaving our employ.

Responsible Person: Pat Nordick
Projected Completion Date: September 1, 1999

Finding 7. Northwest Technical College did not execute formal contracts with other independent organizations, including its affiliated foundation.

Northwest Technical College will execute formal contracts with the three foundations at Moorhead, Detroit Lakes, and Wadena. In addition, a formal agreement will be put into place between Northwest Technical College and the NETS consortium.

Northwest Technical College entered into a formal agreement with Taher foodservice on the East Grand Forks and Bemidji campuses within the last 18 months. Due to the urgency of the service needed to provide foodservice to the college students, we allowed the provider to start services before the finalization of the contracts. The college will finalize the contracts before the beginning of the academic year this summer.

The college provides educational service at a site located on the Red Lake Indian Reservation. We will work with the tribal leadership to put together a formal written agreement which spells out the responsibilities of each party.

Responsible Person - Pat Nordick, Judy Rinkenberger, and Vern Treat
Projected Completion Date – October 1, 1999

Finding 8. The college did not adequately control and safeguard certain incoming receipts.

All receipts at the campuses will either be run through the cash registers at the campus bookstores or else they will be logged on a receipt log in the campus business offices. The college will cross-train business office staff to ensure that receipts get promptly deposited daily.

As of June 1, 1999 the college has gone to direct lending through the Department of Education and is using automated clearing house for our SELF loans and therefore will no longer be receiving any paper FFEL checks, therefore correcting this issue.

The college will look into a courier service for transporting deposits during heavy times and at the very least instruct employees to take deposits to the bank at various times.

Responsible Person – Pat Nordick and Brad Kennedy
Projected Completion Date – August 15, 1999

Finding 9. The college did not establish adequate controls over the collection of customized training receipts.

All customized training receivables will be tracked through the MnSCU accounts receivable module and deposits will be deposited through the campus bookstore on the East Grand Forks campus. By using the MnSCU system the accounts receivable will automatically post to accounting.

Responsible Person – Karla Selk and Dawn Booen
Projected Completion Date – August 31, 1999

Finding 10. Northwest Technical College did not properly code certain transaction information into the accounting system.

The centralized accounts payable office will ensure that occurrence dates are used appropriately. Northwest Technical College is using the MnSCU purchasing control system to its fullest by requiring all employees to enter their purchase order requisitions on-line rather than using a paper form. However, in doing this we rely on the faculty and staff to know the proper object codes to use when placing an order. To correct this finding, the centralized accounts payable office will produce a listing of the most commonly used object codes with definitions and distribute it to all employees. In addition, the centralized accounts payable office will review purchase order requisitions as they come in and will identify and correct any mis-coded requisitions. MnSCU is also completing an object code definition listing which will aid us in choosing the most appropriate object code.

Responsible Person – Wayne Wolden
Projected Completion Date – August 15, 1999

Finding 11. The college did not adequately control and document the receipt of goods and services.

Northwest Technical College now requires and ensures that a receipt of goods received along with the invoice and purchase order are all received prior to the payment to the vendor. A process has been developed and implemented by the central accounts payable office to ensure this happens.

The NTC-Bemidji receiving area is located behind the campus bookstore. Additional staff has been hired for the campus bookstore as of June 1999 which will now give us a full-time bookstore manager. The manager will meet the UPS delivery personnel in the receiving area to count/verify the packages being delivered. The manager will also be the person responsible for prompt delivery of the packages by noon of the same day. Backup personnel have also been designated in the event that the bookstore becomes extremely busy. The computer help center will be notified immediately of any incoming shipments of computers and accessories and they will be picked up and secured in the help center. All computers being shipped from the campus will remain in the help desk until pickup.

Responsible Person – Wayne Wolden and Judy Rinkenberger
Projecteed Completion Date – Implementation completed

Finding 12. The college did not adequately account for the activities of its laptop computer program.

Being the first MnSCU college to venture into the laptop arena for students, the college did recognize the need to develop procedures to account for the program. As the program expanded many of the processes that worked for a small program no longer could be used for a larger laptop fleet and therefore the procedures were in a continual state of change which caused issues for the college. The college has implemented an extensive inventory process whereby we can now track every machine and note whether it is leased to a student, in a reserve pool, leased to a department, or in a damaged status. This inventory system is working extremely well. The college has recently completed a new RFP for the laptop machines and will make the distinction as to which type of lease arrangement we will be entering into with the leasing company. The college now has one individual working out of the Bemidji campus to do the accounting for the laptop program and therefore the correct coding is taking place. Northwest Technical College will do full cost accounting to the program in future years.

Responsible Person – Judy Rinkenberger
Projected Completion Date – Implementation completed

Finding 13. The college did not reconcile laptop fees collected to expected program revenue.

The college now requires that all students register for a course through the ISRS system that designates if they are leasing a computer, own a computer, or in a program that does not require a computer. The college currently reconciles the students registered for the course designating a computer was leased from the college with the inventory system to ensure that all students who did actually lease a machine have been charged the lease amount. The college is also tracking the lease revenue and reconciling the leases funds received and the lease funds receivable against the number of machines actually leased.

Responsible Person – Pat Nordick
Projected Completion Date – Implementation completed and ongoing

Finding 14. The college overpaid financial aid to a student.

We respectfully disagree with the finding that a student was overpaid financial aid because the number of household members enrolled in postsecondary education changed after the students' file was verified. We also reject the assertion that the student should be held to a higher standard of scrutiny during the verification process solely on the basis of the students' occupational status. We do not believe this is consistent with the spirit of Sec. 668.55.

Sec.668.55(3)(b) states: If the number of family members in the applicants' household or the number of those household members attending postsecondary educational institutions changes for a reason other than a change in the applicants' marital status, an applicant who is selected for verification shall update the information contained in his or her application regarding those factors so that the information is correct as of the day the applicant verifies the information. The institution and the student complied in whole with this requirement. Referring to chapter 2, page 20 of the 1998-1999 Verification Guide, it states: "If the applicant completes a verification worksheet, no further documentation is required." It also states: verifying number enrolled in postsecondary education is not required when the student's valid output document (SAR, SAR Information Acknowledgement, or ISIR) is received within 90 days of the date the application is signed. The institution complied in whole with these requirements as well.

Finally, we assert that citing section 690.80 of the pell grant program is not germane to this finding. Section 690.80 refers to recalculating the pell grant if the student's EFC changes as a result of a change in enrollment status, clerical error, or a correction based on information required as a result of verification. Regarding the last point, at the time of verification, the student verified the number enrolled in

postsecondary education, and the institution had no reason at that time to question the accuracy of the information.

Section 668.55 is the appropriate citation relating to issues of verification, and Northwest Technical College strongly asserts that the institution fully complied with the requirements of Sec 668.55.

Finding 15. Financial aid employees had inappropriate access to certain financial aid checks.

The college's centralized payroll office located on the East Grand Forks campus processes all of the student workstudy payroll checks. Those payroll checks are now mailed to the campus business offices. The college has entered into a contract with MHESO so that the SELF loan checks now come to the centralized accounts receivable office in Moorhead via ACH transaction and therefore the paper loan checks are no longer being mailed to the financial aid office. Northwest Technical College did make several attempts through written correspondence with the SELF loan program to have the paper loan checks sent to Moorhead and not Detroit Lakes but was unable to get the mailing address changed. By using the ACH banking process this item is no longer an issue.

Responsible Person – Pat Nordick and Karla Selk
Projected Completion Date – Implementation completed

Finding 16. The college did not adequately safeguard certain financial aid funds.

The Moorhead and Wadena campuses are now storing both financial aid checks and student paychecks in a locked file cabinet when the employees leave their desks or work area. The Moorhead campus will require all students picking up financial aid or payroll checks to present proper identification.

Responsible Person – Wayne Wolden and Brad Kennedy
Projected Completion Date – August 15, 1999

Finding 17. The college improperly provided financial aid to some students who failed to meet satisfactory academic progress standards.

The college agrees with the finding that some students who failed to meet satisfactory academic progress were awarded financial aid. The reason for the oversight related to the institution's new student record system (ISRS). For the fall term of enrollment, the software failed to identify those students who did not meet the satisfactory progress requirements. The institution attempted to manually identify those students affected by the requirement. In the process of doing this manually, some students were missed. The problem has been rectified and the student record system currently has the capability to identify students who have failed to meet the satisfactory academic progress requirement.

Responsible Person – Tom Whelihan
Projected Completion Date – Implementation completed and on-going

Finding 18. The college did not establish certain financial aid policies in compliance with federal regulations.

The college agrees with this finding and will establish financial aid policies as outlined by the financial aid regulations.

Responsible Person – Tom Whelihan
Projected Completion Date – September 1, 1999