Minnesota West Community and Technical College

Financial-Related Audit
For the Period July 1, 1995, through June 30, 1998

September 1999

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-48

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SUMMARY

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Minnesota West Community and Technical College

Financial-Related Audit
For the Period July 1, 1995 through June 30, 1998

Public Release Date: September 10, 1999 No. 99-48

Background

Minnesota West Community and Technical College (MnWest) is a community and technical college accessible to students at five southwestern Minnesota campuses: Canby, Granite Falls, Jackson, Pipestone, and Worthington. MnWest has an annual enrollment of approximately 2,050 students. Dr. Ron Wood was appointed president of the MnWest College on July 22, 1998.

Audit Scope and Conclusions

Our audit scope included a review of financial management, tuition, fees, customized training revenues, resale revenues, employee and student payroll, selected expenditure areas, and bookstore operations for the period July 1, 1995, through June 30, 1998. We also examined the administration of student financial aid programs for fiscal year 1999.

MnWest designed and implemented internal controls to provide reasonable assurance that it operated within available resources and properly recorded its financial activities in the accounting system. However, we noted that the college did not restrict certain computer access privileges over tuition, payroll/personnel, administrative expenditures, and the bookstore area. Mitigating controls were recommended as a means of reducing risk where separation of duties is not feasible.

The college designed and implemented internal controls over tuition, fees, and customized training revenues and various expenditure areas, including payroll and student financial aid. Controls provided reasonable assurance that transactions were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. Two findings discuss ways to improve controls by implementing an independent review of SEMA4 payroll processing reports for hourly employees and documenting receipt of goods and invoice payment authorizations.

MnWest did not, however, develop sufficient internal controls over resales and bookstore revenues to ensure that assets were safeguarded, and revenues were accurately reported in the accounting records and in compliance with management's authorization. We noted weaknesses over deposit verification and inventory for resale activities and separation of bookstore duties, and suggested mitigating controls where separation of duties is not feasible. We also found that bookstore financial statements do not reflect all operating costs such as rent and utilities.

Minnesota West Community and Technical College agreed with the audit findings and is taking corrective action to resolve the issues.

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morris J. Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

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

We have audited selected areas of Minnesota West Community and Technical College for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included: tuition, fees and customized training, resale revenues, employee and student payroll, selected expenditure areas, and bookstore operations. We also reviewed internal controls over administration of student financial aid for fiscal year 1999. The audit objectives and conclusions are highlighted in the individual chapters of this report.

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

This report is intended for the information of the Legislative Audit Commission, the management of Minnesota West Community and Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 10, 1999.

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

End of Fieldwork: April 23, 1999

Report Signed On: September 3, 1999

Minnesota West Community and Technical College

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
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Crystal Eskridge	Auditor
Dan Kingsley	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Minnesota West Community and Technical College and the MnSCU System Office at the exit conference held on August 20, 1999:

Minnesota West Community and Technical College:	
Ronald Wood	President
Lori Voss	Vice President, Finance and Human Resources
MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Deb Winter	Director of Campus Accounting
John Asmussen	Executive Director, Internal Auditing
Marilyn Hansmann	Audit Coordinator, Internal Auditing
MnSCU Board of Trustees:	
Andrew Boss	Chair, Audit Committee

Chapter 1. Introduction

Minnesota West Community and Technical College (MnWest) is a community and technical college accessible to students at five southwestern Minnesota campuses in Canby, Granite Falls, Jackson, Pipestone, and Worthington. On January 1, 1997, four technical colleges, formerly known as Southwestern Technical College, merged with Worthington Community College to create a new comprehensive college. MnWest has an annual enrollment of approximately 2,050 students.

Prior to the MnWest merger on January 1, 1997, Ralph Knapp was president of Southwestern Technical College and Conrad Burchill was president of Worthington Community College. Ralph Knapp continued as president of MnWest from January 1, 1997, until his retirement on June 30, 1998. Dr. Ronald Wood was appointed president of MnWest by the MnSCU Board of Trustees effective July 22, 1998 and began work on August 19, 1998.

MnWest provides students with the opportunity to earn an Associate Degree, Diploma, or Certificate. Courses are designed to transfer to a four-year college or university and will apply toward a baccalaureate degree. In addition to Liberal Arts offerings, MnWest also offers Continuing Education and Customized Training programs. The programs offer short-term, part-time credit and clock hour courses, continuing education units, and customized training to individuals, businesses, industries, and agencies. The Continuing Education and Customized Training department makes courses and programs available to the public from a wide array of experts and consultants in many fields. Table 1-1 shows student attendance at MnWest for fiscal year 1996 through 1998.

Table 1-1
Full-Year Equivalent (FYE) Student Counts

Campus	**Fiscal Year 1996**	**Fiscal Year 1997**	**Fiscal Year 1998 (1)**
Canby	177	168	192
Granite Falls	337	346	317
Jackson	343	317	383
Pipestone	246	237	269
Worthington	626	634	510
Offsite (2)	346	308	346
Total	2,075	2,010	2,017

Note (1): Beginning in Fiscal Year 1998, students completing general education requirements are reported in the campus where the student attended.

Note (2): Offsite students primarily attend the Farm Management Program at various college campuses

Source: MnWest Vice President of Finance and Human Resources

Minnesota West Community and Technical College

MnWest finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the system-wide appropriation to the individual colleges and universities based on a formula. Table 1-2 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for the fiscal year ended June 30, 1998.

Table 1-2
Sources and Uses of Funds
Fiscal Year Ended June 30, 1998

	General Fund	Special Revenue Fund	Enterprise Funds
July 1, 1997, Fund Balance	$ 1,315,256	$ 117,892	$ 703,116
State Appropriation	12,670,795	0	0
Revenues:			
Tuition and Fees	4,809,277	146,602	74,197
Resales	613,244	7,867	0
Bookstore	0	0	876,368
Federal Grants	0	2,095,362	0
State Grants	154,152	0	0
Private Grants	201,384	0	0
Other Revenue	330,201	16,988	41,716
Total Revenues	$ 6,108,258	$2,266,819	$ 992,281
Total Resources	$20,094,309	$2,384,711	$1,695,397
Expenditures:			
Employee and Student Payroll	$12,822,551	$ 414,093	$ 124,543
Purchased Services	703,652	41,742	24,807
Consultant/Contract Services	791,543	37,457	9,582
Utilities	541,845	0	0
Supplies/Materials	1,562,227	140,396	7,931
Supplies for Resale	449,203	3,634	668,630
Equipment	628,640	59,210	0
Student Financial Aid	39,256	1,475,237	0
Other Expenditures	557,283	48,121	32,277
Transfers Out	311,629	0	1,200
Total Expenditures	$18,407,829	$2,219,889	$ 868,971
June 30, 1998, Fund Balance	$ 1,686,480	$ 164,822	$ 826,427

Note 1: Table 1-1 is prepared 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 as of the close of books and compensated absence liabilities. Compensated absences as of June 30, 1998, were estimated at $1.4 million. Also, the unrecorded liability for 1998 contract increases paid to college administrators for contracts settled during fiscal year 1999 is estimated at $68,000.

Note 2: An additional $348,375 was expended on Capital Projects from July 1, 1995 to June 30, 1998. The college's Capital Project fund balance as of June 30, 1998, was $747,386. Also, Agency Fund financial activities (funds held in a custodial capacity) are not shown.

Note 3: The college indicated that $195,840 of the June 30, 1998 fund balance is budgeted for use in fiscal year 1999 operations.

Source: MnSCU General Ledger Accounting System as of December 31, 1998.

Chapter 2. Financial Management

Chapter Conclusions

Minnesota West Community and Technical College generally designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. However, we noted the college did not effectively separate duties by restricting staff computer access privileges. Mitigating controls should be improved to reduce risks where separation of duties is not feasible. We also noted that the college had developed an appropriate relationship with each of its affiliated foundations. For the items tested, the college complied with applicable collateral requirements for its local bank accounts.

On July 1, 1995, the consolidated Minnesota State Colleges and Universities System (MnSCU) began operations. At that time, a new computerized accounting system, MnSCU accounting, as well as the State Colleges and Universities Personnel/Payroll System (SCUPPS) were implemented. MnSCU required all campuses to use the MnSCU accounting system to account for money maintained within the state treasury and local bank accounts maintained outside the state treasury. MnWest administered certain funds, such as financial aid, agency accounts, and enterprise activities in local bank accounts. A different account served as the state depository for transfer of funds into the state treasury.

The State of Minnesota also implemented computerized financial and personnel/payroll systems in 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. The university used the MnSCU accounting system to initiate transactions that involved appropriated funds. Through a system interface, MnSCU accounting system updates these transactions into MAPS, which generates state treasury warrants for state-appropriated expenses. Similarly, the State Employment Management (SEMA4) system is used to generate warrants initiated in the university's SCUPPS subsystem.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to MnWest, and other MnSCU institutions, based on an allocation formula. In addition, MnSCU colleges and universities retain tuition and other dedicated revenues to arrive at total resources available for operations and spending.

Once MnWest determines its authorized spending level, it allocates spending budgets for various administrative areas and academic departments. The college projects payroll costs, allocates department supply and equipment budgets, and establishes individual cost centers for each department or office to monitor its budget status. Management monitors projected versus actual student enrollment to ensure sufficient tuition revenues are generated to support the spending budget. As shown in Table 1-1, MnWest had a fund balance of $1.7 million in its General Fund accounts for fiscal year ended June 30, 1998.

Each month, the business office in Canby reconciles the MnSCU system reports to MAPS. The business office in Canby is also responsible for reconciliations of all MnWest local bank accounts to the MnSCU accounting system.

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

Audit Objectives and Methodology

Our review of Minnesota West Community and Technical College's overall financial management focused on the following objectives:

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

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the program areas included in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We also reviewed bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Finally, we reviewed security privileges to determine whether the college adequately restricted access to its computerized business systems.

Conclusions

MnWest generally designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources, safeguarded its assets, and properly recorded its financial activities in the MnSCU accounting system. However, we noted the college did not effectively separate duties by restricting staff computer access privileges as discussed in Finding 1. Mitigating controls could be improved to reduce risks where separation of duties is not feasible. We also noted that the college developed an appropriate relationship with each of its affiliated foundations. For the items tested, the college complied with collateral requirements regarding its local bank accounts.

At the time of our audit, reconciliations of state treasury and local bank accounts were up-to-date and being performed monthly. However, MnWest did not timely reconcile accounts from July 1, 1995, to December 31, 1997. We noted improved controls during fiscal year 1998 when MnWest began reconciling its state treasury funds and bank accounts on a monthly basis. MnWest also did not timely enter appropriation transactions in MnSCU accounting during fiscal year 1998. The untimely reconciliations of state treasury and local bank accounts, and delayed entry of appropriation transactions, created a risk of inaccurate or misleading financial information.

We also noted that the college improved the timeliness of depositing its receipts during fiscal year 1998. Minn. Stat. Section 16A.275 requires that receipts be deposited daily or when they exceed $250. However, we noted a limited number of tuition and fees, resales, and bookstore receipts during fiscal years 1996 and 1997, and early in fiscal year 1998 which were not timely deposited.

1. The college did not adequately restrict certain employee computer access privileges nor develop sufficient mitigating controls.

MnWest did not adequately restrict employee access to its accounting and personnel/payroll business systems as of April 1999. The college has the primary authority and responsibility to ensure employee access is necessary based on job responsibilities. If separation of duties is not cost beneficial due to a limited number of administrative staff at each campus, mitigating controls should be improved to reduce risk exposures. Our review of employee computer access privileges disclosed the following concerns:

- Numerous college staff had ability to update registrations, waivers, collections, and account receivable adjustments. These users could modify tuition and registration charges, and also post account receivable collections and waivers. Tuition assessment duties are incompatible with the collection or cash handling process. Also, the capability to produce adjustments and waivers should not be assigned to cashiers. The college has not developed mitigating controls to reduce risk if separation of duties at individual campuses is not practical.

- Two employees could update both SCUPPS personnel and SEMA4 payroll transactions. The ability for payroll staff to initiate personnel transactions creates an unnecessary risk exposure, which could result in the processing of unauthorized transactions.

- Each campus accounting coordinator had ability to generate purchase orders and process payments to vendors. These responsibilities are typically incompatible, however, the college did perform certain mitigating control tests of campus transactions and documentation. We feel that these tests could be improved with more frequent and ongoing testing, and an emphasized focus on areas of vulnerability. For example, utilities and other contractual obligations can be effectively monitored with budgetary controls. Alternatively, purchases of equipment or supplies have greater procurement and receiving risks.

Recommendations

- *MnWest should improve security access controls by restricting access to its business systems based on job responsibilities.*

- *MnWest should improve and develop mitigating controls in areas where separation of duties is not feasible.*

Chapter 3. Tuition, Fees, and Customized Training

Chapter Conclusions

Minnesota West Community and Technical College designed and implemented internal controls to provide reasonable assurance that tuition, fees, and customized training revenues were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, the college did not adequately restrict access to its tuition and accounts receivable system. For the items tested, except for a limited number of untimely deposits in fiscal years 1996, 1997, and early 1998, as discussed in Chapter 2, the college complied with finance-related legal provisions.

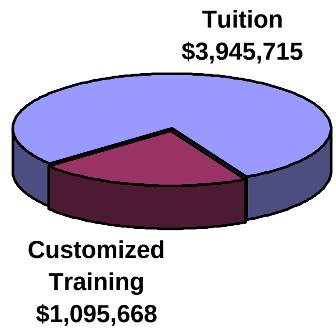
MnWest collected tuition and fees each quarter from students enrolled in campus programs. The college registered, billed, and collected tuition and fees on the Minnesota Multi-Campus Student Information System (MSIS) and the Collegiate Information System (CIS) registration systems for fiscal years 1996 and 1997. Beginning in fiscal year 1998, the college implemented the new MnSCU Student Information System (SIS) accounts receivable module. The module enabled the college to manage amounts owed by students for class registrations, send bills to students, and record subsequent collection of amounts owed. Typically, students registered at each campus and paid tuition at the campus business office or bookstore. Funds were transferred from the individual campuses to a centralized account in Canby which served as the state depository.

During fiscal year 1996, the resident tuition rate for community and technical college courses was $42.25 per quarter credit hour. For fiscal year 1997, the college charged a resident rate of $43.85 per credit hour for community and technical colleges. In fiscal year 1998, the college assessed resident students $42.65 per credit hour.

The college also collected revenue from customized training, including continuing education courses and contract training courses. The college offers continuing education to the general public, while developing contract training courses tailored to the needs of a specific business. Each campus operates its own customized training office, with a college dean or program director providing oversight. The customized training department prepares a contract addressing the financial aspects of the program. The college maintained billings and accounts receivable on a paradox database.

The college collected approximately $5 million in tuition, fees, and customized training revenue in fiscal year 1998. Figure 3-1 shows a breakdown of the revenue for fiscal year 1998.

Figure 3-1
Tuition Revenues
Fiscal Year 1998



Source: MnSCU accounting.

Audit Objectives and Methodology

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

- Did MnWest design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, properly reported in the accounting records, and in compliance with legal provisions and management's authorization?
- Did MnWest comply with applicable legal provisions governing the assessment of tuition?

To meet these objectives, we interviewed employees to gain an understanding of the internal controls over assessing, collecting and depositing, and recording of tuition and customized training revenues. We reviewed student registrations, ISRS billings, and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions. We also reviewed the contracts, billing statements, budget-planning worksheets, and deposits for the customized training.

Conclusions

Minnesota West Community and Technical College designed and implemented internal controls to provide reasonable assurance that tuition, fees, and customized training revenues were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we identified in Chapter 2, Finding 1, that the college did not adequately restrict access to its tuition and accounts receivable system. For the items tested, except for a limited number of untimely deposits in fiscal years 1996, 1997, and early 1998, as discussed in Chapter 2, the college complied with finance-related legal provisions governing the assessment and deposit of tuition revenues.

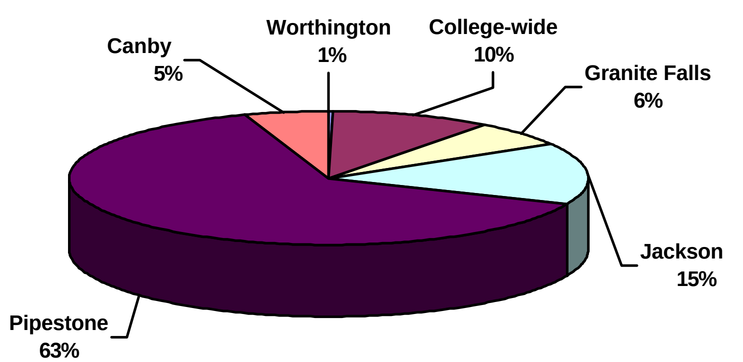
Chapter 4. Resale Activities

Chapter Conclusions

MnWest did not design and implement internal controls to provide reasonable assurance that resale revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with legal provisions and management's authorization. We found that the college lacked deposit verification and inventory controls for resale activities. For the items tested, except for a limited number of untimely deposits, as discussed in Chapter 2, the college complied with finance-related legal provisions.

MnWest programs produce various goods and services in the course of educating and training their students. These goods and services are sold to the general public and proceeds are used to defray the raw material and operating costs. Programs like carpentry, cosmetology, meat cutting, auto body and auto repair provide students an opportunity to gain work experience in their field of study as they complete their coursework. For fiscal years 1996 through 1998, MnWest recorded approximately $1.6 million in resale revenues. As shown in Table 4-1 the largest portion was raised at the Pipestone campus.

Figure 4-1
Resale Revenues
Fiscal Years 1996-1998



Note 1: The Pipestone campus includes home sales in the carpentry program and meat cutting and cosmetology sales.
Note 2: The Jackson campus sold one home during the audit period, but the program was discontinued in fiscal year 1999.
Source: MnSCU Accounting System.

Audit Objectives and Methodology

We focused our review of resale revenues on the following objectives:

- Did MnWest College design and implement internal controls to provide reasonable assurance that resale revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with legal provisions and management's authorizations?

- Did MnWest College comply with applicable legal provisions for the items tested?

To answer these questions, we interviewed college staff to gain an understanding of the process and controls at various campus locations. Numerous staff were involved in collecting and depositing resale revenues at each of the campuses. We compared transactions to resales records, receipt slips, and deposit reports. We also analyzed the reasonableness of resale revenues recorded on the MnSCU accounting system for the audit period.

Conclusions

Minnesota West Community and Technical College did not design and implement internal controls to provide reasonable assurance that resale revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with legal provisions and management's authorization. We found that the college lacked control over deposit verification and inventory for resale activities For the items tested, except for a limited number of untimely deposits in fiscal year 1996, 1997, and early 1998, as discussed in Chapter 2, the college complied with finance-related legal provisions.

2. MnWest did not adequately control resale activity financial transactions.

The college does not have an effective process to verify deposits and maintain inventory records to safeguard assets held for resale. Resale revenues are collected at numerous locations at each campus, in the form of cash and check, and are vulnerable to risk of theft or loss.

We found there is no independent verification of receipts documentation to the actual deposit of funds for most resale areas. Each campus resale activity has its own method of collecting, documenting, and forwarding receipts to the business office for deposit. Some areas, such as the large meat-cutting and cosmetology programs at Pipestone, use a cash register to control receipts collected. The program director for the meat-cutting program compared cash register tapes to the actual deposit by the business office. However, a subsequent, independent verification of sales was not performed for any other MnWest resale activities, such as cosmetology and automotive repairs, increasing the risk that all recorded sales were not properly deposited. Mitigating control procedures can also be effective, such as the central collection of moneys at the business office. For example, the Granite Falls automotive department requires customers to make payment for service repairs at the campus bookstore.

We also noted that the college does not maintain inventory records for items sold. For example, the Granite Falls automotive department does not keep inventory records for toolboxes sold to students. These items are purchased based on estimated student enrollment and held until the student provides evidence of payment. Although students make payment at the bookstore and provide a receipt to pick up their toolboxes, there are no inventory records or controls. To compound the matter, used toolboxes are sometimes reacquired at the end of the course and resold to subsequent students. Inventory records provide a basis for controlling sales. Without inventory records, theft or misuse of items could occur and go undetected.

Recommendations

- *MnWest should ensure deposits are independently verified and duties properly separated for each resale area. If separation of duties is not feasible, mitigating controls should be considered.*

- *MnWest should establish inventory controls over resale products where practical.*

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Chapter 5. Employee and Student Payroll

Chapter Conclusions

Minnesota West Community and Technical College designed and implemented internal controls to provide reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. For the transactions tested, the college complied with material finance-related legal provisions and bargaining agreements. However as explained in Chapter 2, Finding 1, the college did not adequately restrict employee access to its human resource and payroll systems. We also found that the college needs to independently review the SEMA4 biweekly payroll processing reports for hourly employees.

Payroll represents the college's largest operating cost annually, totaling $13 million, or 60 percent of total expenditures in fiscal year 1998. Payroll and personnel data are reviewed, approved, and processed by staff located at the Canby campus. Staff assignments, pay rates, and bargaining agreement information are maintained in the State Colleges and Universities Personnel/Payroll System (SCUPPS). SCUPPS interfaces into the State Employee Management System (SEMA4) to generate paychecks or direct deposits to college employees.

MnWest employed 171 full-time faculty and administrators, 307 part-time faculty and staff, and 40 customized training staff during fiscal year 1998. College employees are covered by various compensation plans including the following organizations:

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

Table 5-1 shows the annual payroll costs by campus for the past three fiscal years.

Table 5-1
Payroll Expenditures
Fiscal Years 1996 to 1998

Campus	FY 1996	FY 1997	FY 1998
Canby (1)	$ 1,965,943	$ 1,653,564	$ 1,683,574
Granite Falls (2)	3,034,174	2,895,181	2,515,408
Jackson	3,204,258	3,138,145	2,967,338
Pipestone	2,206,298	2,177,254	2,043,834
Worthington	3,324,088	3,671,171	3,751,839
Total	$13,734,761	$13,535,315	$12,961,993

Note 1: The Canby campus includes college-wide administrative services and business office staff costs.
Note 2: The Granite Falls campus includes president's office and financial aid office payroll costs.
Source: State Employee Management System (SEMA4) and the state Payroll/Personnel System for fiscal years 1996, 1997, and 1998 as of December 31, 1998.

The college also employed student workers to perform various jobs throughout the campus. During the three fiscal years under review, the college paid approximately $1.6 million to students in various student payroll programs. The college employed student workers who were paid from institutional funds. It also participated in both the federal and state work-study programs, which provided funding to students based on financial need. Students submitted biweekly timesheets to their supervisors for approval. Financial aid staff at each campus input hours worked into the MnSCU student payroll system. The Canby business office processed student payroll checks, monitored state matching requirements, and handled the necessary accounting system entries.

Audit Objectives and Methodology

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

- Did MnWest design and implement internal controls to provide reasonable assurance that employees and students were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records?

- Did MnWest comply with the material finance-related legal provisions and bargaining agreements?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested payrate increases for management authorization and compliance with bargaining unit agreements. Payroll transactions were summarized, reviewed, and compared to SCUPPS appointments for a sample of employees. We also examined employee leave balances maintained by the college. For student payroll, we selected a sample pay period for each campus and examined the payroll rosters and timesheets supporting student payments.

Conclusions

For the items tested, MnWest compensated its employees and students in compliance with applicable legal provisions and bargaining agreements. The college designed and implemented internal controls to provide reasonable assurance that employees and students were paid in accordance with legal provisions and management's authorization, and that payroll expenditures were properly recorded in the accounting system. However, we noted human resource and payroll systems access concerns in Chapter 2, Finding 1, and the need for an independent review of SEMA4 biweekly payroll processing reports for hourly employees.

3. The college did not independently review SEMA4 biweekly payroll processing reports for hourly employees.

MnWest did not perform an independent review of the biweekly payroll transactions processed through SEMA4. An independent review would provide the college with assurance that it correctly processed classified employee payroll transactions at the end of each pay period. SEMA4 identifies transactions processed on two critical reports discussed in the Department of Finance Operating Policy and Procedure (PAY00028). This policy requires agencies to verify hours worked, leave taken, and payrates that have been entered and processed for each pay period. The following critical reports should be produced and independently reviewed:

- The *Payroll Register* identifies employee payrates, hours worked, and leave posted. A review of this report would provide assurance about the hours, payrates, and any necessary paycheck adjustments.

- The *Payroll Posting Audit Trail* identifies total payroll expenditures, including gross pay and employer contributions for FICA, retirement, and insurance that were posted to college accounts in MAPS.

Currently, duties are performed by one individual who inputs payroll and also reviews the two SEMA4 output reports. No one independently verifies this employee's work. The college controls faculty salaries through alternative means. To improve the effectiveness of the payroll verification process, staff independent of the payroll input function should review the accuracy of SEMA4 hours and payrates processed.

Recommendation

- *MnWest should assign payroll hours and payrate verification responsibilities to staff independent of the payroll input function.*

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Chapter 6. Administrative Expenditures

Chapter Conclusions

MnWest designed and implemented internal controls to provide reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded and were in compliance with legal provisions and management's authorization. However, we noted incompatible computer access privileges as discussed in Chapter 2, Finding 1. In addition, the college did not sufficiently document receipt of goods nor authorize certain payments. For the items tested, the college complied with finance-related legal provisions governing purchases and disbursements.

College academic and administrative departments initiated purchase requests electronically using the MnSCU Purchase Control System (PCS), which encumbered available funds. The business office in Canby solicited bids and selected vendors for purchases exceeding $5,000. The campus accounting coordinator distributed purchase orders to the applicable college department. Upon receipt of the goods or services, the college department would approve payment of the invoice and forward supporting documents to the accounting coordinator. The accounting coordinator processed the vendor payment from of the appropriate cost center in the MnSCU accounting system.

Administrative expenditures include payments for utilities, supplies and equipment, as well as contractual, consultant, and other purchased services. For the past three fiscal years administrative expenditures totaled $12.5 million, as shown in Table 6-1.

Table 6-1
Selected Administrative Expenditures
Fiscal Years 1996 to 1998

Expenditure Category	1996	1997	1998
Purchased Services	$ 729,633	$ 715,363	$1,017,888
Consultant/Contractual Services	964,200	767,568	931,800
Utilities	564,097	559,311	541,845
Equipment	688,701	908,539	687,850
Supplies	850,299	884,158	1,729,220
Total	$3,796,930	$3,834,939	$4,908,603

Note 1: Financial activities shown above include Capital Project fund disbursements totaling $348,375 from July 1, 1995, through June 30, 1998.
Note 2: Supplies expenditures increased in fiscal year 1998 due to changes in equipment coding.

Source: MnSCU accounting system for fiscal years 1996, 1997, and 1998 as of December 31, 1998.

Minnesota West Community and Technical College

Minnesota West Community and Technical College has centralized a large portion of its expenditure processing, including utilities at the Worthington campus and college-wide insurance and lease obligations at the Canby campus. Individual campuses are responsible for processing payments for other goods and services that they procured.
MnWest tracks all fixed assets valued at over $2,000, with a life expectancy of more than two years, on the MnSCU fixed asset system. College policies also require recording of sensitive assets valued between $500 and $2,000. Individual campuses perform periodic physical inventories of fixed assets.

The main business office is located at the Canby campus. The remaining four campuses have one accounting coordinator to initiate purchases and process payments to vendors. To mitigate the separation of duties weakness, the main business office sampled transactions from each campus and performed a "purchasing audit." This review, although very beneficial, was only performed once a year and was limited to administrative expenditures. Controls could be strengthened if the review was expanded into other areas, such as bookstore financial transactions.

We also noted the college did not accurately code obligation dates for its disbursement transactions. Typically, this date is used to accrue financial activity into the proper accounting period and fiscal year. However, the college used the default date, the date the transaction was entered into the system, as the obligation date. The college indicated that they emphasized proper coding of obligation dates near the end of each fiscal year.

Audit Objectives and Methodology

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

- Did MnWest design and implement internal controls to provide reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately reported in the accounting system and in compliance with applicable legal provisions and management's authorization?

- Did MnWest comply with the significant finance related legal provisions governing purchases and disbursements?

To meet these objectives, we interviewed staff at each of the campuses to gain an understanding of internal controls over the procurement and disbursement processes. We performed analytical reviews and tested transactions to ensure the college properly procured, authorized, disbursed, and recorded administrative expenditures on the accounting system. Finally, we reviewed each campus' process to record and control its fixed assets.

Conclusions

MnWest designed and implemented internal controls to provide reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded and complied with legal provisions and management's authorization. However, we noted incompatible computer access privileges as discussed in Chapter 2, Finding 1. In addition, we found the college needs to improve its documentation supporting the receipt of goods and payment approvals. For the items tested, the college complied with finance-related legal provisions governing purchases and disbursements.

4. The college did not properly document receipt of goods nor provide adequate authorization for payments.

MnWest paid vendor invoices without evidence assuring receipt of goods or a signed acknowledgement on the purchase order. Packing slips, or other similar documentation, typically accompany the delivery of goods or materials. When packing slips are not available, a signed acknowledgement on the purchase order by college staff provides similar assurance. The quantity received should be compared to the amount subsequently invoiced by the vendor. Our tests found that 16 of 49 disbursements examined did not have a packing slip or signature of the employee verifying the quantity received. The lack of receiving evidence prepared at the point of delivery increases the risk that the college may pay for items it never received.

Recommendation

- *The college should properly document receipt of goods and authorize payments being made to vendors.*

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Chapter 7. Bookstore Operations

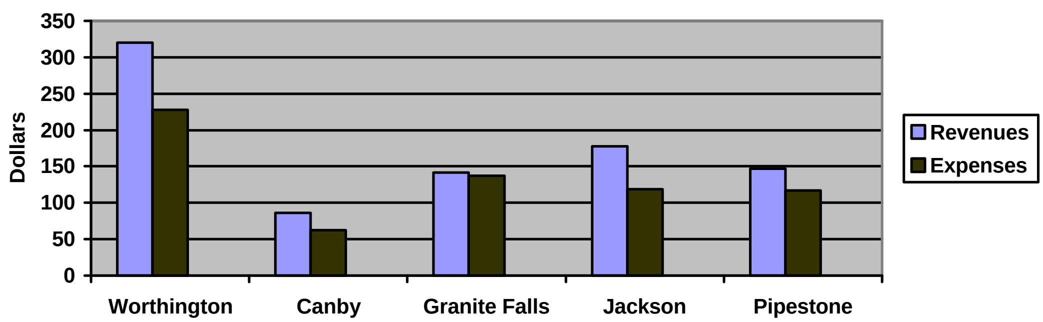
Chapter Conclusions

MnWest did not design internal controls to assure that bookstore revenues and expenses were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. Our review identified certain weaknesses involving separation of duties and completeness of financial statements used to monitor bookstore activities. For the items tested, except for a limited number of untimely deposits noted in Chapter 2, the college complied with finance-related legal provisions.

MnWest employs one bookstore employee at each campus and each employee reports to the vice president of student and administrative services in Pipestone. The bookstores sell a variety of books, supplies, and apparel. Each bookstore receives money in the form of cash, check, or credit card. Bookstore staff record sales on a cash register. At the end of each business day, bookstore employees count the money and reconcile to the cash register tape. Bookstore personnel also purchase taxable and non-taxable items for the bookstore. MnWest authorizes bookstore personnel to place orders up to a limit of $5,000. Purchases over $5,000 must go through the college business office.

During fiscal year 1998, the college recorded $876,368 in revenues and $668,630 in expenses for the bookstore on the MnSCU accounting system. Figure 7–1 shows the annual financial activity for each campus bookstore in fiscal year 1998.

Figure 7-1
Bookstore Revenues and Expenses
Fiscal Year 1998 (In Thousands)



Audit Objectives and Methodology

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

- Did MnWest design and implement internal controls to provide reasonable assurance that the bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

- Did MnWest comply with the significant finance-related legal provisions concerning bookstore operations?

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

Conclusions

MnWest College did not design internal controls to assure that the bookstore revenues and expenses were accurately recorded in the accounting records and in compliance with all applicable legal provisions and management's authorization. Our review of the bookstore identified a weak separation of duties for depositing receipts and physical inventory counts. We found that the college bookstore's financial statements do not reflect all operating costs such as rent and utilities. We also noted obligation dates were not being accurately coded, except at fiscal year-end, as discussed in Chapter 6. For the items tested, the college complied with finance-related legal provisions. However, as discussed previously in Chapter 2, we noted a limited number of untimely deposits during fiscal years 1996, 1997, and early in 1998.

5. The college did not adequately separate duties for bookstore operations.

MnWest College did not provide an independent review of bookstore financial transactions. The bookstore employees forward the daily sales receipts and cash register tape to the campus accounting coordinator. The accounting coordinator deposited the receipts and entered the revenue transactions in MnSCU accounting. The accounting unit also reviewed and verified the bank statements and MnSCU accounting system reports. However, no one independent of the accounting unit verified that all receipts were deposited and properly recorded. The college should consider mitigating controls, such as having the bookstore employee verify bank deposit and accounting system recording, if other separation of duties is not practical.

Regarding inventory, bookstore employees order and receive the goods, authorize payments to vendors, and maintain inventory records. Access to records and physical custody of inventory items should not be concentrated with one individual, unless an independent person periodically checks inventory balances. Without proper separation of duties, errors and irregularities could occur and remain undetected.

Recommendations

- *The college should consider having bookstore employees verify receipt deposits and recording of transactions in the accounting system.*

- *A periodic physical inventory or spot checks should be performed by someone independent of the bookstore operations.*

6. The college did not prepare complete financial statements to monitor bookstore activities.

Minnesota West Community and Technical College did not prepare complete financial statements to monitor campus bookstore activities. The bookstores were not charged any indirect costs such as rent or utilities. Bookstores are an auxiliary enterprise and should account for operations in a manner similar to private business. Accordingly, an income statement should include a measurement of cost of goods sold and indirect costs. An income statement can also help determine if the correct markup is being applied to the cost of goods sold or whether the bookstores need to pursue methods to reduce operating costs.

Recommendation

- *The college should produce complete income statements for bookstore activities at each campus.*

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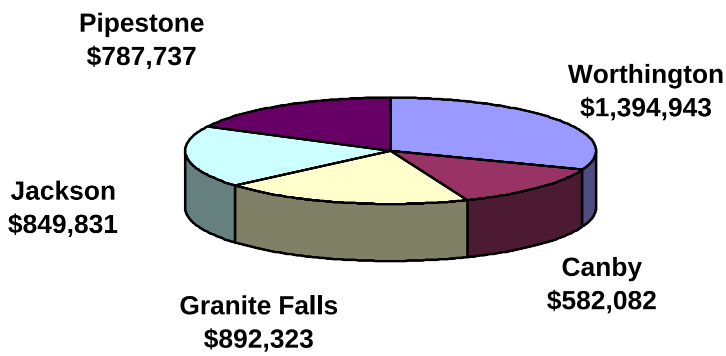
Chapter 8. Student Financial Aid

Chapter Conclusions

MnWest West Community and Technical College designed and implemented internal controls to provide reasonable assurance that student financial aid programs were administered in compliance with applicable laws and regulations, and transactions were properly recorded in the accounting system. For the items tested, the college complied with finance-related legal requirements governing cash management and reporting of federal expenditures.

MnWest participates in various federal financial aid programs administered by the U. S. Department of Education, as well as State of Minnesota grant and loan programs. The college uses the Student Aid Reporting and Analysis (SARA) system to process and award financial aid to students. Table 8-1 shows federal financial aid awards by campus for fiscal year 1999.

Figure 8-1
Federal Financial Aid Awards
Fiscal Year 1999



Source: MnWest Financial Aid System (SARA) Reports.

MnWest College participated in a variety of student financial aid programs. The federal programs reviewed during the audit period included the following:

- *Federal Pell Grant Program (CFDA #84.063)* – The Pell Grant is generally considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the student's enrollment level. Pell Grant funding is not limited to funds available at an institution. The maximum Pell Grant for the 1998-99 award year was $3,000.

- *Federal Family Education Loan (FFEL) Program (CFDA #84.032)* – This program includes both Subsidized and Unsubsidized Stafford Loans. The student borrower applies for the loan from a private lender. The school certifies the promissory note for qualifying students. The federal government guarantees the loan in case of default or cancellation. The federal government pays the interest to the private lender on Subsidized Stafford Loans while the student is in school and during certain deferment periods. For Unsubsidized Stafford Loans, the interest accrues from the date of origination and is the responsibility of the borrower. The maximum FFEL program amount for a given student is determined by the borrower's grade level and the amount previously borrowed.

- *Federal Supplemental Educational Opportunity (FSEOG) Grant (CFDA # 84.007) –* FSEOG grants are awarded to exceptionally needy undergraduates students. The college determines a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education subsidizes 75 percent of the grants and the college funds the remaining 25 percent.

- *Federal Work-Study (FWS) Program (CFDA # 84.003)* – FWS provides part-time employment for students who continue to have financial need after receiving all other available grants. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remaining 25 percent.

- *Federal Perkins Loan (FPL) Program (CFDA #84.038)* – FPL provides low-interest loans to needy students. The university acts as a lender, using both federal funds and a state match for capital contribution. The MnSCU system office performs loan collection duties including corresponding with students entering repayment status, receiving loan repayments and pursuing delinquent loans. MnWest did not issue any loans in fiscal year 1998 or 1999, but does intend to offer the program again in fiscal year 2000.

Table 8-1 shows the various federal program awards for the 1998-99 academic year.

Table 8-1
Federal Financial Aid Awards
Fiscal Year 1999

CFDA Number	Program	Awards
84.032	Federal Family Education Loan (FFEL)	$2,493,341
84.063	Federal Pell Grant	$1,634,603
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$ 193,804
84.033	Federal Work-Study (FWS)	$ 185,167

Source: MnWest Financial Aid System (SARA) reports.

Minnesota West Community and Technical College

MnWest also participates in the Minnesota State Grant Program. The Higher Education Services Office (HESO) establishes the eligibility criteria for this program and advances funds to the college. The college determines student eligibility and provides the awards to the students. The college received and disbursed approximately $2.4 million in Minnesota State Grants during the past three fiscal years.

Audit Objectives and Methodology

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

- Did MnWest design and implement internal controls to provide reasonable assurance that student financial aid programs were managed in compliance with applicable laws and regulations and accurately recorded in the accounting system?

- Did MnWest comply with federal regulations governing cash management and federal financial aid reporting?

To meet these objectives, we interviewed employees from the college financial aid and business offices. We reviewed and tested controls over compliance with federal and state legal requirements for packaging, awarding, and disbursing student financial aid for the 1998-99 academic year. We also reviewed and tested controls over compliance for federal cash management and reporting requirements.

Conclusions

Minnesota West Community and Technical College designed and implemented internal controls to provide reasonable assurance that programs were managed in compliance with applicable state and federal financial aid program requirements. Internal controls also ensured proper recording of financial aid transactions in the accounting system. For the items tested, the college complied with federal regulations over federal cash management and reporting federal expenditures.

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Status of Prior Audit Issues
As of April 1999

Most Recent Audit

Legislative Audit Report 99-19, issued in March 1999, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1998. We audit federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report included one finding related specifically to MnWest. The college did not limit certain requests for financial aid funds to immediate cash needs. We did not identify any similar concerns during our review of financial aid internal controls for fiscal year 1999.

Other Audit History

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

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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Minnesota West
COMMUNITY & TECHNICAL COLLEGE

August 30, 1999

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

Dear Mr. Nobles,

The purpose of this letter is to respond to the recently completed audit of Minnesota West Community and Technical College for the period July 1, 1995 through June 30, 1998. The college's formal response to each finding is enclosed.

During the time period covered by the audit, Southwestern Technical College (STC) and Worthington Community College (WCC) were taking part in the statewide merger of MnSCU and new computer systems were installed. In addition, on January 1, 1997, STC and WCC were merged into one. During this time of change, the college's personnel responded quickly and for the most part quietly. The emphasis was on doing what had to be done to conduct the business of learning. The college takes great pride in their fiscal management and control and perceives the audit experience as one continuos improvement.

I'd like to take this opportunity to thank the audit team for their efforts in auditing what can be referred to as a "geographically challenged" college. Their insight and suggestions for improvement will be helpful as we continue to strive to serve southwestern Minnesota proudly.

If you have any questions or concerns in regards to our response to the audit findings, please feel free to contact either myself or Lori Voss.

Sincerely,

Ronald A. Wood
President

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1. **Recommendation:** The college did not adequately res trict certain employee access privileges nor develop sufficient mitigating controls.

   Response: The college has a limited number of staff to complete tasks and therefore always struggles with limiting access to certain computer functions. We will, however, do a complete review of functions that may be considered incompatible and either make adjustments or establish sufficient mitigating controls where separation of duties is not cost effective. This will be the responsibility of Lori Voss, VP of Finance/Human Resources and will be completed by December 31, 1999.

2. **Recommendation:** Minnesota West did not adequately control resale activity financial transactions.

   Response: The college has already made some adjustments to its resale activity procedures. We will also work with internal auditing to complete the process of setting up cost effective controls for its resale activities. This will be the responsibility of Lori Voss, VP of Finance/Human Resources and will be completed by December 31, 1999.

3. **Recommendation:** The college did not independently review SEMA4 biweekly payroll processing reports for hourly employees.

   Response: The college has assigned another business office employee to independently review the biweekly payroll input. This was the responsibility of Lori Voss, VP of Finance/Human Resources and was completed as of pay period ended 6/22/99.

4. **Recommendation:** The college did not properly document receipt of goods nor provide adequate authorization for payment.

   Response: Business office personnel have been instructed that receipt documentation and payment authorization must be provided before payment of an invoice by the business office. This can be accomplished by a signed packing slip. In the absence of a packing slip, a signed acknowledgement of receipt will be obtained. This is the responsibility of each employee responsible for accounts payable and has been completed as of the issuance of this audit report.

5. **Recommendation:** The college did not separate duties for bookstore operations.

   Response: Minnesota West operates a bookstore at each of it's five campuses. Because of size, it is not cost effective to employ more than one employee at four of the five campuses. To compensate, the bookstore manager will be provided with a receipt for each deposit submitted to the business office as well as a monthly transaction report that they can use to verify their receipts are deposited appropriately. In addition, the physical inventory will be spot checked by the campus business office personnel before submission. This is the responsibility for each campus's business office personnel and will be completed by October 1, 1999.

6. **Recommendation:** The college did not prepare complete financial statements to monitor bookstore activities.

   Response: Minnesota West is waiting for System Office direction on application of any indirect costs to the enterprise operation. It is our understanding that the draft of their policy will be presented to the Board of Trustees in October. It is the responsibility of Lori Voss, VP Finance/Human Resources to follow up on any action the System Office takes regarding indirect cost charges to enterprise operations.