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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Financial Audit

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**St. Paul Technical College**  
**July 1, 1996, through December 31, 1999**



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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

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

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## Report Summary

### Financial Audit

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#### **St. Paul Technical College** **July 1, 1996, through December 31, 1999**

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St. Paul Technical College operated within available resources. Except as noted below, the college complied with applicable legal provisions and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded. The college made significant improvement in administering its programs since our last audit report was issued in August 1997.

#### Key Findings:

- St. Paul Technical College (college) did not adequately restrict computer access in several areas. (Finding 1, page 7)
- The college needs to improve controls over Minnesota Satellite and Technology (MnSAT) revenues, including its monitoring of accounts receivable. (Finding 2, page 8)
- The college needs to improve controls over customized training revenue. (Finding 3, page 13)
- The college had an inadequate separation of duties in the bookstore. In addition, college bookstore staff did not perform an independent review of disbursements processed by the business office. (Findings 4 and 5, page 19)
- The college miscoded certain computer purchases on MnSCU accounting. In addition, the college did not record all items in the fixed asset system and did not provide adequate physical control over its inventory. (Finding 6, page 26)

St. Paul Technical College is a part of the Minnesota State Colleges and Universities (MnSCU) system. This **audit report** focused on financial management, tuition and fees, payroll, administrative expenditures, auxiliary enterprises, and the Minnesota Satellite and Technology (MnSAT) activities for the period from July 1, 1996, through December 31, 1999. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. The college's response to our recommendations is included in the report.

# St. Paul Technical College

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Sonya Johnson, CPA	Auditor-in-Charge
George Deden, CPA	Auditor
Crystal Eskridge	Auditor
Patrick Phillips, CPA	Auditor

### Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and St. Paul Technical College at the exit conference held on May 8, 2000:

#### System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Deb Winter	Director of Campus Accounting
Paul Portz	Audit Coordinator

#### St. Paul Technical College:

Donovan Schwichtenberg	President
Ron Zaudke	Chief Financial Officer
Denis Kelly	Accounting Supervisor
John Palmer	Accounting Supervisor



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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor  
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Donovan Schwichtenberg, President  
St. Paul Technical College

We have audited selected areas of St. Paul Technical College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included tuition and fees, employee payroll, administrative expenditures, auxiliary enterprises, and Minnesota Satellite and Technology (MnSAT) revenue. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. 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 *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that St. Paul 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 St. Paul 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 May 25, 2000.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles  
Legislative Auditor

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: February 25, 2000

Report Signed On: May 19, 2000

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## Chapter 1. Introduction

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St. Paul Technical College was founded in 1919 and is one of 36 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system, which began operations on July 1, 1995. The college will celebrate its 80-year anniversary during the 1999-2000 school year. Dr. Donovan Schwichtenberg is the college president.

The college offers more than 50 occupational and associate degree programs, within a variety of disciplines, to approximately 2,550 students. The largest programs include computer careers, licensed practical nursing, and construction electrician.

The college finances its operations primarily from state appropriations, and student tuition and fees. MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates funds to St. Paul Technical College based upon an allocation formula. St. Paul Technical College, like other institutions, retains tuition and other dedicated revenues to obtain total resources available for operations. Table 1-1 provides a summary of the college's financial activity for fiscal year 1999.

# St. Paul Technical College

**Table 1-1**  
**St. Paul Technical College Revenues, Expenditures/Expenses and**  
**Changes in Fund Balance**  
**Fiscal Year Ended June 30, 1999**

	General Fund	Special Revenue Fund	Enterprise Fund
<b>Revenues</b>			
State Appropriation	\$14,043,042	\$ 0	\$ 0
Tuition and Fees	5,833,134	84,322	98,576
Sales and Services	587,693	24,906	376,442
Federal Grants	0	3,999,394	0
State Grants	760,684	0	0
Private Grants	67,902	0	0
Other Income	22,101	2,057	22,847
Total Revenues	<u>\$21,314,556</u>	<u>\$4,110,679</u>	<u>\$ 497,865</u>
<b>Expenditures/Expenses</b>			
Payroll	\$13,754,672	\$1,372,615	\$ 397,894
Purchased Services	2,683,812	446,755	37,594
Utilities	725,793	3,842	0
Contracts/Consultants	458,614	105,307	15,777
Supplies	2,325,286	70,148	12,478
Financial Aid	592,990	1,892,173	10,000
Capital Expenditures	943,719	24,934	0
Debt Service	114,823	0	0
Other Expenses	15,606	149,431	73,100
Total Expenses	<u>\$21,615,315</u>	<u>\$4,065,205</u>	<u>\$ 546,843</u>
<b>Transfers</b>			
Transfers In	\$ 148,536	\$ 16	\$ 1,651
Transfers Out	(99,865)	(23)	0
Net Transfers	<u>\$ 48,671</u>	<u>\$ (7)</u>	<u>\$ 1,651</u>
<b>Change in Fund Balance</b>	<u>\$ (252,088)</u>	<u>\$ 45,467</u>	<u>\$ (47,327)</u>
<b>Beginning Balance</b>	<u>\$ 5,319,412</u>	<u>\$ 56,247</u>	<u>\$ 755,894</u>
<b>Ending Fund Balance</b>	<u>\$ 5,067,324</u>	<u>\$ 101,714</u>	<u>\$ 708,567</u>

Note 1: This table is prepared on the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included.

Note 2: Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and Services – Gross	\$1,266,195
Cost of Goods Sold	889,753
Sales and Services – Net	376,442

Note 3: In addition to the balances shown above, the college had Trust Fund balances of \$20,749, which had no activity during the year.

Note 4: Compensated absence liabilities at June 30, 1999, were \$979,970, \$124,741, and \$26,288 for the General Fund, Special Revenue Fund, and Enterprise Fund, respectively. These liabilities represent the amount due college employees for accrued vacation leave, sick leave, and compensatory leave at June 30.

Note 5: The General Fund Ending Fund Balance includes an unrestricted reserve of \$2,035,707, as calculated by the college. The reserve is the part of a college's general operating budget for which no use is presently planned. The remaining fund balance was restricted for various commitments, including retiree's health benefits, unemployment compensation, repair and betterments, state grants, and other obligations.

Source: Prepared by MnSCU accounting staff as adjusted by OLA.



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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*St. Paul Technical College's internal controls provided reasonable assurance that it properly recorded financial activities on the MnSCU and MAPS accounting systems, operated within available financial resources in compliance with applicable legal provisions and management's authorization, and had an appropriate operating relationship with its foundation. The college also complied with applicable legal provisions regarding local bank accounts. However, we found that the college did not adequately restrict access to its computerized business systems. In addition, the college needs to improve controls over Minnesota Satellite and Technology (MnSAT) revenue.*

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St. Paul Technical College uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury. MnSCU requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury. St. Paul Technical College administered certain funds, including financial aid and enterprise activities, in one local bank account. This account also served as the state depository for transfer of funds into the state treasury.

### **Audit Objectives and Methodology**

Our review of St. Paul Technical College's financial management focused on the following objectives:

- Did St. Paul Technical College's internal controls provide reasonable assurance that it properly recorded financial activities on the MnSCU and MAPS accounting systems?
- Did St. Paul Technical College's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did St. Paul Technical College's internal controls provide reasonable assurance that it had an appropriate relationship with its foundation?
- Did St. Paul Technical College comply with applicable legal provisions regarding local bank accounts?

## **St. Paul Technical College**

To answer these questions, we interviewed college staff to gain an understanding of the college's use of MnSCU accounting for programs in our audit scope. We also gained an understanding of management controls, including budgeting, budget monitoring, and reconciliations in place over local bank account activities. We reviewed local bank account activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency. We also reviewed the college's relationship with its foundation. Finally, we reviewed security privileges to determine whether the college had adequately restricted access to its computerized business systems.

### **Budgetary Controls and Financial Operations**

The MnSCU system office allocates appropriated funds to St. Paul Technical College based upon an allocation formula. The college uses this allocation and tuition and fee revenue estimates to determine the basis for its annual budget. The business office monitors the budgets at a cost center level with monthly budget reports from MnSCU that are sent to the individual cost center managers. Business office staff will notify the college's chief financial officer and the cost center manager if the budget in any cost center is insufficient.

The college performs daily reconciliations of all receipts processed by business office and bookstore staff to what was deposited in the local bank account to provide proper accountability for all receipts. These daily reconciliations help expedite the monthly local bank account reconciliation process. On a daily basis, the college monitors bank balances to ensure that they are properly collateralized. This is particularly important during peak business times, when there is a lot of activity in the account. The college also performs monthly MnSCU to MAPS reconciliations to ensure that all transactions are properly accounted for.

St. Paul Technical College is affiliated with the St. Paul Technical College foundation, a non-profit organization. The foundation has its own board of directors. The college provided administrative support to the foundation during the audit period. Foundation financial statements are prepared annually and are subject to an external audit by an independent CPA firm.

### **MnSAT**

Minnesota Satellite and Technology (MnSAT) began in 1988 under a joint power agreement between the Minnesota World Trade Conference Center, St. Paul Technical College (SPTC), and the State Board for Technical Colleges. The goal of MnSAT is to provide satellite broadcast services to education, government, business, and industry at state, national, and international levels. St. Paul Technical College provided fiscal support services, including receipt collection and processing. On July 1, 1995, when the state merged the community colleges, state universities, and technical colleges, MnSAT fiscal procedures evolved into those established by the Minnesota State Colleges and Universities (MnSCU) system. A portion of the MnSAT budget resides at the MnSCU central office to pay MnSAT employee salaries and benefits.

# St. Paul Technical College

## Conclusions

St. Paul Technical College's internal controls provided reasonable assurance that it properly recorded financial activities on the MnSCU and MAPS accounting systems, operated within available financial resources in compliance with applicable legal provisions and management's authorization, and had an appropriate relationship with its foundation. St. Paul Technical College complied with applicable legal provisions regarding local bank accounts. The college was performing MnSCU to MAPS reconciliations on a monthly basis to ensure that all transactions were properly accounted for, and at the time of our audit, this reconciliation was current. We found that these reconciliations were not being performed in a timely manner during fiscal year 1997.

We found that the college did not adequately restrict computer access in several areas as discussed in Finding 1. We also found that the college needs to improve controls over MnSAT revenues. This issue is discussed in Finding 2.

### **1. PRIOR FINDING NOT RESOLVED: St. Paul Technical College did not adequately restrict computer access in several areas.**

St. Paul Technical College did not adequately restrict computer access to its accounting and personnel/payroll business systems. The college has the primary responsibility to ensure that employee access is necessary based upon job responsibilities. Our review of computer access privileges disclosed the following concerns:

- Sixteen MnSCU system office personnel had the ability to update St. Paul Technical College's accounting system and SCUPPS payroll data. We do not see a need for these system office staff to have access.
- Twelve St. Paul Technical College tuition office personnel had incompatible clearances to the accounts receivable system. These personnel had the ability to handle tuition waivers, collections, accounts receivable adjustments, and deferments. These users have the potential to inappropriately modify tuition and registration charges, and also improperly adjust accounts receivables and waivers, in addition to their cashiering functions. The capability to produce tuition adjustments and waivers should not be assigned to cashiers. In some of these instances, the individuals need the clearance to particular functions in order to perform their job responsibilities; however, the system does not allow view-only options in some cases, nor does it restrict clearance to other screens or functions in that particular group.
- An employee has incompatible access to most of the college's business systems. Complete access to these systems increases the risk that unauthorized changes could occur and not be detected in a timely manner. This same individual has access to the MnSCU accounting system and the financial aid and accounts receivable modules. This employee also has incompatible access to payroll

## St. Paul Technical College

functions in SEMA4 and personnel functions in SCUPPS. This individual has stated that his job responsibilities require view-only access. In many cases, however, the system does not have a view-only option to give access to that particular function or screen, so the individual has been given update access.

- Seven former employees, as well as an individual who was an employee at another institution, had clearance to some system functions. System access rights should be removed immediately upon an employee's termination of employment.

The college should monitor computer security clearances periodically to ensure that users only have the access necessary to perform their job duties.

### *Recommendations*

- *St. Paul Technical College should limit computer system access to ensure an adequate separation of duties and prevent unauthorized access to data. The college should only grant users access to the screens needed for their jobs. It should work with system office to allow "view only" screens when needed.*

## **2. The college needs to improve controls over MnSAT financial activities.**

St. Paul Technical College did not properly record MnSAT activities and cannot ensure that it properly collected all earned revenues. The college deposited revenues totaling \$381,000, \$717,000, and \$203,000 in fiscal years 1997, 1998, and 1999, respectively. The college was unable to provide complete MnSAT receipt records. The college had not updated the MnSAT receipt records since April 1999 and did not perform a reconciliation between MnSCU accounting and the MnSAT receipt log.

As of April 1999, St. Paul Technical College manual records showed an accounts receivable balance of \$227,000 for MnSAT. Some of these amounts related to fiscal year 1996. The college converted from a manual method of recording receivables to a computerized system in fiscal year 1999; however, the computerized record does not segregate MnSAT customers from other customers. The college was not able to show the balance of these receivables.

Finally, the college recorded the majority of MnSAT revenues on MnSCU accounting under a general receipts customer identification code, rather than an individual customer specific code. As a result, the college is unable to determine if they collected all the revenues earned as they were unable to compare amounts on MnSCU accounting to MnSAT records.

## St. Paul Technical College

### *Recommendations*

- *St. Paul Technical College should:*
  - *ensure that the revenue records for MnSAT are complete;*
  - *determine the true amount of aged receivables and determine the collectible amount; and*
  - *enter receipts under a correct customer identification code.*

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## Chapter 3. Tuition Revenue

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### *Chapter Conclusions*

*St. Paul Technical College's internal controls provided reasonable assurance that tuition, fee, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and were in accordance with applicable legal provisions and management's authorization. However, as discussed in Finding 3, we found that the Corporate Training and Assessment did not reconcile customized training receipts to deposits recorded on MnSCU accounting. In addition, as discussed in Chapter 2, Finding 1, the college did not adequately restrict access to its accounts receivable system.*

*For all items tested, the institution complied, in all material respects, with significant finance-related legal provisions concerning tuition and fee receipts. However, as discussed in Finding 3, we found that the college did not deposit all customized training receipts on a timely basis, received some services prior to obtaining a fully signed and executed contract, and did not properly delegate authority according to MnSCU policy.*

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St. Paul Technical College collected tuition and fee receipts from students enrolled in campus programs. The college registered, billed, and collected tuition and fees on the Minnesota Multi-Campus Student Information System (MSIS) during fiscal years 1997 and 1998. Beginning in fiscal year 1999, the college implemented the new MnSCU Integrated Student Record System 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. Students paid their tuition at the cashier window in the tuition office or the bookstore. Each morning, an individual reconciled the day's receipts to a report generated by the system and prepared the bank deposit. A courier delivered the deposit to the bank.

In fiscal years 1997 and 1998, the college operated on a quarter system. The college changed to a semester system in fiscal year 1999. In fiscal year 1999, the resident tuition rate was \$66.25 per semester credit.

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education courses and contract training courses. St. Paul Technical College refers to this program as Corporate Training and Assessment. The

## **St. Paul Technical College**

college offered continuing education courses to the general public and developed contract-training courses to meet the educational needs of a specific business or industry.

The college collected approximately \$6 million in tuition and fee revenue in fiscal year 1999. Of this amount, \$1.2 million was attributable to the customized training program.

### **Audit Objectives and Methodology**

Our review of the college's tuition, fee, and customized training revenue focused on the following objectives:

- Did St. Paul Technical College's internal controls provide reasonable assurance that tuition, fee, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and were in accordance with applicable legal provisions and management's authorization?
- Did St. Paul Technical College comply, in all material respects, with significant finance-related legal provisions concerning tuition, fee, and customized training revenue?

To meet these objectives, we interviewed college employees to gain an understanding of the internal control structure in place over collecting, depositing, and recording of tuition and customized training revenue. We performed detailed tests of transactions and performed analytical procedures. Finally, we reviewed the contracts and deposits for customized training revenues.

### **Conclusions**

St. Paul Technical College's internal controls provided reasonable assurance that tuition, fee, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and were in accordance with applicable legal provisions and management's authorization. However, as discussed in Finding 3, we found that the Corporate Training and Assessment did not reconcile customized training receipts to deposits recorded on MnSCU accounting. In addition, as discussed in Chapter 2, Finding 1, the college did not adequately restrict access to its accounts receivable system.

For all items tested, the institution complied, in all material respects, with significant finance-related legal provisions concerning tuition and fee receipts. However, as discussed in Finding 3, we found that the college did not deposit all customized training receipts on a timely basis, received some services prior to obtaining a fully signed and executed contract, and did not properly delegate authority according to MnSCU policy.



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### **3. PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College needs to improve controls over customized training receipts.**

The Corporate Training and Assessment did not ensure that receipt collections were properly deposited and recorded on MnSCU accounting. The Corporate Training and Assessment maintains records of receipts collected at its location that are taken to the tuition office for deposit. However, there is no verification that the receipts collected agree with the amounts actually deposited and recorded on MnSCU accounting.

In addition, the college did not deposit customized training receipts in a timely manner. Staff deliver receipts to the college tuition office on a daily basis; however, these receipts are not always deposited timely. In five of ten instances, receipts were deposited between six and nineteen days late. Minn. Stat. Section 16A.275 requires that receipts totaling \$250 or more be deposited on a daily basis.

The college provided instructional services before contracts had been fully signed and executed with the vendors involved. In three instances, the college initiated customized training income contracts to provide instructional services; however, the contracts had not been signed by all parties prior to the beginning of class.

Finally, the college did not properly delegate authority to the Corporate Training and Assessment to enter into contracts. According to MnSCU policy 1A.1.1 Part 2, each institution president is to ensure that proper delegation of authority is given to employees of that institution. However, the college did not properly document the delegation of authority given to the Corporate Training and Assessment staff to enter into customized training income contracts.

#### *Recommendation*

- *The college should improve controls over customized training receipts by:*
  - *reconciling receipts on the Corporate Training and Assessment's records to MnSCU accounting;*
  - *depositing receipts of \$250 or more on a daily basis;*
  - *ensuring that instructional services are not provided until the contract process is completed; and*
  - *properly delegating authority as outlined in MnSCU policy.*

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## Chapter 4. Payroll Expenditures

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### *Chapter Conclusions*

*St. Paul Technical College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records in compliance with applicable legal provisions and management's authorization. For the transactions tested, the college complied with material finance-related legal provisions and bargaining agreements. However as explained in Chapter 2, Finding 1, the college did not adequately restrict employee access to its human resource and payroll systems.*

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Payroll represents the college's largest expenditure, totaling \$15.6 million in fiscal year 1999. Business office staff reviewed, approved, and processed payroll data. Human resource staff at the campus reviewed, approved, and processed personnel data. 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.

As of February 2000, St. Paul Technical College employed 217 full-time faculty and administrators, 259 part-time faculty and staff, and 49 customized training staff. The following organizations represent the college's employees:

- 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)

### **Audit Objectives and Methodology**

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

- Did St. Paul Technical College's internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

## **St. Paul Technical College**

- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning payroll?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation and tested payrate increases for management authorization and compliance with bargaining unit agreements. In addition, we summarized and reviewed payroll transactions and compared to SCUPPS appointments for a sample of employees. We also examined employee leave balances maintained by the college.

### **Conclusions**

The college's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, St. Paul Technical College complied with the significant finance-related legal provisions concerning payroll. However, we noted human resource and payroll systems access concerns in Chapter 2, Finding 1.

In the previous audit, we noted that the college was not producing key payroll and human resource control reports that highlighted incorrect personnel/payroll transactions and posting errors, and were not making corrections timely. During this audit, we noted a significant decrease in the number of human resource and payroll reporting errors that required correction.

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## Chapter 5. Auxiliary Enterprises

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### *Chapter Conclusions*

*St. Paul Technical College's internal controls provided reasonable assurance that auxiliary enterprise activities were accurately recorded in the accounting records in compliance with applicable legal provisions and management's authorization. For the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning auxiliary enterprise activities. We noted that the college did not have an adequate separation of duties in the bookstore. We also noted that bookstore staff are not performing an independent review of disbursements processed by the business office.*

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St. Paul Technical College operates enterprise fund activities for bookstore and food service. The accounting system activity for each of these enterprises is shown in Table 5-1.

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**Table 5-1**  
**Bookstore and Cafeteria Income Statement**  
**Fiscal Year 1999**

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	<u>Bookstore</u>	<u>Cafeteria</u>
Sales and Services	\$ 785,355	\$450,267
Cost of Goods Sold	<u>( 672,897)</u>	<u>(207,507)</u>
Gross Margin	112,458	242,760
Operating Expenses		
Salaries	\$ 113,446	\$220,793
Purchased Services	12,128	5,022
Consultant/Contract Services	15,446	330
Indirect Costs	40,649	23,126
Depreciation	3,729	1,467
Other	<u>9,686</u>	<u>6,662</u>
Total Operating Expenses	<u>195,084</u>	<u>257,400</u>
Income (loss) from Operations	( 82,626)	(14,640)
Nonoperating Revenue	<u>13,443</u>	<u>1,651</u>
Net Income (loss)	(69,183)	(12,989)
Student Scholarships	<u>(10,000)</u>	<u>0</u>
Net Increase (decrease) to Retained Earnings	<u><u>(\$79,183)</u></u>	<u><u>(\$12,989)</u></u>

Source: MnSCU Accounting System.

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## **St. Paul Technical College**

The St. Paul Technical College bookstore offers textbooks and a wide range of school and personal supplies for sale. Students have the option of paying by cash, check, credit card, or charges to financial aid. The bookstore usually has two full time employees; however, during the beginning of the semester, it also employs two part-time employees.

The St. Paul Technical College food service area provides meals, snacks, and beverages to college students, staff, and visitors. The cafeteria also caters to other schools and outside businesses. Food service employs two full-time and eleven part-time individuals. Generally, cash is the only method of payment accepted, although in some instances, a bill is sent to the customer, or a cost center is charged internally.

### **Audit Objectives and Methodology**

The primary objective of our review of auxiliary enterprise activities was to answer the following questions:

- Did St. Paul Technical College's internal controls provide reasonable assurance that auxiliary enterprise activity was accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning auxiliary enterprise activity?

To address these questions, we obtained an understanding of the internal control structure over the revenue process. We interviewed employees regarding the procedures used to process transactions. We performed analytical reviews of financial activities and accounting system balances. We also tested samples of transactions to determine if the college had appropriate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

### **Conclusions**

St. Paul Technical College's internal controls provided reasonable assurance that auxiliary enterprise activity was accurately recorded in the accounting records in compliance with applicable legal provisions and management's authorization. For the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning auxiliary enterprise activities. We noted that the college did not have an adequate separation of duties in the bookstore. We also noted that bookstore staff are not performing an independent review of disbursements processed by the business office.

## St. Paul Technical College

### **4. PRIOR FINDING PARTIALLY RESOLVED: The college had an inadequate separation of duties in the bookstore.**

The St. Paul Technical College bookstore did not have an appropriate separation of duties over its daily sales activities. One person operated the cash register, reconciled receipts to cash register totals at the end of the day, prepared the deposit, and entered the daily summary information in the MnSCU accounting system. These duties are incompatible and should be segregated to ensure that errors and irregularities do not occur and go undetected. If a proper segregation of duties is not possible because of the limited number of staff, the college should establish a detective control to ensure that revenue collections are properly deposited and recorded.

#### *Recommendation*

- *The college bookstore should provide for an independent verification of daily bookstore cash collections.*

### **5. College bookstore staff are not performing an independent review of disbursements processed by the college business office.**

Bookstore staff did not perform an independent review of business office disbursements charged to bookstore operations. Although the business office generated and sent periodic reports of disbursements charged to the bookstore, bookstore staff did not verify that the items charged to their cost center were authorized and appropriate. The lack of an independent review of disbursements processed by the business office increases the risk of errors or irregularities occurring and not being detected.

#### *Recommendation*

- *Bookstore staff should perform an independent review of disbursements processed by the business office.*

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## Chapter 6. Student Financial Aid

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### Chapter Conclusions

*St. Paul Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. For the items tested, the college complied with applicable federal requirements over receiving federal funds. The college's internal controls provided reasonable assurance that only eligible students received financial aid in the appropriate amounts.*

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St. Paul Technical College packaged and awarded financial aid through the Student Aid Reporting and Analysis system (SARA) during our audit period. Beginning January 1, 2000, the college implemented a new computerized application to package and award financial aid. The new financial aid module is one of the twenty-two modules that make up MnSCU's Integrated Student Record System (ISRS). The financial aid module interfaces with other modules within the ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report, and also accepts and stores the institutional financial aid application and tax data from the student. A comparison of application data provided by the student to the Student Aid Report (SAR) identifies any discrepancies, beyond accepted tolerances, in a process called 'verification.' The electronic version of the SAR is called the Institutional Student Information Record (ISIR). The system enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the institution. Through interfaces with the accounts receivable and student records modules, the system automatically adjusts awards by updating to the correct credit data. Similarly, adjusted expenditures are interfaced into MnSCU accounting.

The system provides interactive packaging, awarding, and disbursing of federal and state financial aid. The system automatically verifies financial aid applicant compliance with specific requirements, determines the financial need, and applies awards to students' accounts in the accounts receivable module. The system verifies enrollment before disbursing the awards. The amount of the award is adjusted by the system if a student's enrollment drops subsequent to initial application of funds. The college will operate this financial aid module concurrently with SARA through the spring semester 2000.

St. Paul Technical College participates in a variety of federal financial aid programs. Table 6-1 summarizes program expenditures for fiscal year 1999.

## St. Paul Technical College

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**Table 6-1**  
**St. Paul Technical College**  
**Federal Financial Aid Expenditures**  
**Fiscal Year 1999**

<u>CFDA Number</u>	<u>Program</u>	<u>Total Expenditures</u>
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	\$ 100,931
84.032	Federal Family Education Loan (FFEL)	\$ 379,794
84.033	Federal Work-Study (FWS)	\$ 85,066
84.063	Federal Pell Grant	\$1,739,554

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Source: Fiscal year 1999 Federal Operations Report and Application to Participate (FISAP).

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The federal Pell grant is 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 1999-2000 award year was \$3,125 per student.

The Federal Family Education Loan (FFEL) program includes 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.

The Federal Work-Study (FWS) Program and Federal Supplemental Educational Opportunity Grant (FSEOG) are additional sources of federal financial aid. The federal government share must not exceed 75 percent of the total expenditures in the FSEOG and FWS Programs. The state contributes the remaining 25 percent of the program funding.

St. Paul Technical College also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office (MnHESO). The college packages Minnesota State grants along with federal financial aid. MnHESO establishes eligibility requirements for the state grant program and reimburses the college for eligible grant disbursements. During fiscal year 1999, the college disbursed Minnesota State Grants totaling \$431,759 to students.

# **St. Paul Technical College**

## **Audit Objectives and Methodology**

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

- Did St. Paul Technical College's internal controls provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?
- For the items tested, did the college comply with applicable federal requirements over receiving federal funds?
- Did the college's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?

To meet these objectives, we interviewed employees from the college financial aid and business offices, and evaluated and tested controls over compliance for determining student eligibility and awarding, packaging, and disbursing federal and state financial aid. In addition, we reviewed college records and tested controls to ensure compliance with regulations governing federal cash management.

## **Conclusions**

St. Paul Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. For the items tested, the college complied with applicable federal requirements over receiving federal funds. The college's internal controls provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. However, we did note in three isolated instances that federal receipts were not recorded timely in the MnSCU accounting system. The college explained that this was due to loss of college staff.

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## Chapter 7. Other Administrative Expenditures

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### *Chapter Conclusions*

*St. Paul Technical College's internal controls provide reasonable assurance that administrative expenditures were accurately recorded in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, we found that the college miscoded computer hardware and computer software purchases on MnSCU accounting, did not account for all fixed asset items in the MnSCU fixed asset module, and did not provide adequate physical control over inventory.*

*For the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning other administrative expenditures.*

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St. Paul Technical College staff and faculty incur various administrative expenditures to facilitate the educational mission of the institution. Our audit focused on expenditures for consultant and purchased services, utilities, equipment, and supplies. Total expenditures for these areas totaled approximately \$7 million in fiscal year 1999.

The departments in the college initiate purchases over \$1,500 by completing an internal requisition form and forwarding it to the college purchasing agent. According to MnSCU guidelines, at least two competitive bids are to be obtained for purchases up to \$25,000. Purchases over \$25,000 require sealed bids. The purchasing agent obtains competitive bids and completes a purchase order to place an order with the vendor. Equipment purchases require the additional approval of the appropriate college dean, vice president, or president. Items under \$1,500 can be purchased with a field purchase order.

The college tags fixed assets and records them in an internal database. The school is also required to record items with a cost over \$2,000 in the MnSCU fixed asset module. Further directives state that all computer items, regardless of price, are to be recorded in the fixed asset module.

### **Audit Objectives and Methodology**

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

## St. Paul Technical College

- Did St. Paul Technical College's internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions?

To address these questions, we obtained an understanding of the internal control structure over the procurement and expenditure process. We performed detailed testing of transactions to determine whether the college properly procured and documented disbursement transactions, properly recorded transactions in MnSCU accounting, and complied with applicable MnSCU policies.

### Conclusions

St. Paul Technical College's internal controls provide reasonable assurance that selected administrative expenditures were accurately recorded in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, we found that the college miscoded computer hardware and computer software purchases on MnSCU accounting, did not account for all fixed asset items in the MnSCU fixed asset module, and did not provide adequate physical control over inventory. These issues are discussed in Finding 6.

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

#### **6. PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College needs to improve controls over its computer inventory.**

The college miscoded computer software and hardware purchases totaling \$1.7 million over the audit period to incorrect MnSCU accounting object codes. As a result, the hardware and software purchases were not recorded on the fixed asset module. There is a specific object code in MnSCU accounting that should be used to record computer equipment purchases. The college stated that they used these incorrect object codes to segregate computer purchases from other equipment purchases. MnSCU policies require that institutions develop procedures to record all fixed assets over \$2,000 on the fixed asset module. Fixed assets with a value of \$2,000 or more are to be recorded in the module. In addition, computer equipment is to be recorded in the module regardless of price. Although computer purchases are not recorded on the fixed asset module, the college does record them on an internal database.

We reviewed the internal database further to determine if the college recorded computer purchases at the proper location. We tested a purchase order from fiscal year 1999 that totaled \$91,000. This purchase was for 220 computer peripherals. We selected five items for physical verification. However, we were unable to locate these items based

## St. Paul Technical College

upon the information in the internal database. If items are moved, the corresponding inventory records are not always updated to account for the change in location. Not having appropriate physical control over fixed asset and other sensitive items makes these items more susceptible to loss or theft.

### *Recommendations*

- *The college should ensure that computer hardware and computer software purchases are coded to the correct object codes in MnSCU accounting.*
- *The college should ensure that all fixed asset items are recorded in the fixed asset equipment module.*
- *The college should ensure that it maintains adequate physical control over inventory items by recording the proper locations.*

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## Status of Prior Audit Issues As of March 20, 2000

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### Most Recent Audits

#### College Audit

**Legislative Audit Report 97-41**, issued in August 1997, covered the period July 1, 1995, through December 31, 1996. The audit cited fifteen audit findings related specifically to St. Paul Technical College. The department implemented nine of these findings. The remaining issues relate to the areas of system security, customized training receipts, college inventory, and bookstore. These issues are carried forward in this report as prior findings not resolved or partially resolved.

#### Statewide Audits

**Legislative Audit Report 00-11**, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to St. Paul Technical College.

**Legislative Audit Report 99-19**, issued in March 1999, examined MnSCU activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 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 did not include any findings related specifically to St. Paul Technical College.

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

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**TECHNICAL COLLEGE**

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235 Marshall Avenue Saint Paul, Minnesota 55102 Telephone (651) 221-1300

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May 16, 2000

Mr. James Nobles  
Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Enclosed is our response to individual findings and recommendations of the Legislative Auditor, who visited St. Paul Technical College earlier this year. We take note of the several areas suggested for improvement and are taking necessary steps in accordance with the auditor's findings. We believe a careful reading of the current reports' chapter conclusions, in comparison to the 1997 report, indicates St. Paul Technical College has made very significant improvements in virtually all areas of its financial management since 1997.

We believe some of the items identified as prior findings relate to issues not solely within the College discretion or control. For example, MnSCU system staff are assigned certain security clearances. We can suggest changes but do not control these clearances. We would also point out that two of the findings (#2 and #6) directly relate to vacant staff accounting positions. SPTC and other MnSCU colleges continue to have difficulty in attracting and retaining highly skilled staff in this area due to non-competitive state salaries. During the last year, we have had as many as four accounting positions vacant simultaneously; we are aware that other MnSCU colleges are experiencing similar difficulties attracting and retaining qualified staff. This is undoubtedly having an adverse impact upon proper administration of required financial controls.

We express our appreciation for the high level of professionalism and courtesy shown by your staff in completing their work.

Sincerely,

*/s/ Donovan Schwichtenberg*

Donovan Schwichtenberg  
President

Enclosures

DS:djl



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**TECHNICAL COLLEGE**235 Marshall Avenue Saint Paul, Minnesota 55102 Telephone (651) 221-1300

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ST. PAUL TECHNICAL COLLEGE AUDIT RESPONSES  
May 16, 2000

AUDIT FINDING #1 – **“ST. PAUL TC DID NOT ADEQUATELY RESTRICT COMPUTER ACCESS IN SEVERAL AREAS.”**

We agree with the findings and are taking steps to implement the recommendation. SPTC has requested deletion of security clearances for certain MnSCU system employees. SPTC has reviewed security clearances for all present Tuition Office employees. We believe no one in the Tuition Office has a security clearance over and above what is necessary for performance of their job duties. We are also recommending to the MnSCU system office that steps be taken to allow “view only” screens to Business system. This would allow use of replicated databases for report generation without violation of security requirements.

Responsible Person - Accounting Supervisor (Denis Kelly)  
Completion Date - June 1, 2000

AUDIT FINDING #2 - **“THE COLLEGE NEEDS TO IMPROVE CONTROLS OVER MNSAT FINANCIAL ACTIVITIES.”**

We agree with the finding and are taking steps to implement the recommendation. We would note that for most of the period since merger, the MnSCU accounting system did not have a viable, functional receivables system. SPTC, therefore, had to institute a manual, personal computer-based billing system to account for MnSAT receivables. That system, which was heavily dependent upon MnSAT clerical staff, was replaced by the MnSCU receivables system in April 1999. Prior to that time, there was significant staff turnover at both MnSAT and SPTC Business Office and the old system fell behind due to lack of clerical support. The new system has better control features and should eliminate criticisms referred to in this finding. SPTC is reviewing all outstanding receivables with the MnSAT program director to assure collection of all earned receivables.

Responsible Person - Accounting Supervisor (Denis Kelly)  
Completion Date - August 1, 2000

**MnSCU**

Minnesota State Colleges and Universities

ST. PAUL TECHNICAL COLLEGE AUDIT RESONSES (Continued)

AUDIT FINDING #3 - **"ST. PAUL TC NEEDS TO IMPROVE CONTROLS OVER CUSTOMIZED TRAINING RECEIPTS."**

We agree with the finding and are taking steps to implement the recommendation. Three of the five problem receipts occurred during semester opening weeks or the Winter break, which are not typical in terms of workload processing. In any event, the CIA's receipt/receivable system will be migrating to ISRS on July 1, 2000 which should have improved control features and allow for easier reconciliation and deposits. Finally, the College has requested and received the proper delegation of authority for its Customized Training Director from the MnSCU system office.

Responsible Person - Accounting Supervisor (Denis Kelly)  
Completion Date - July 1, 2000

AUDIT FINDING #4 - **"THE COLLEGE HAD AN INDADEQUATE SEPARATION OF DUTIES IN THE BOOKSTORE."**

We agree with the finding and are taking steps to implement the recommendation. Specifically, an accounting officer from the Business Office will provide independent verification of daily Bookstore cash collections.

Responsible Person - Accounting Officer (Sue Peterson)  
Completion Date - June 1, 2000

AUDIT FINDING #5 - **"COLLEGE BOOKSTORE STAFF ARE NOT PERFORMING AN INDEPENDENT REVIEW OF DISBURSEMENTS PROCESSED BY THE COLLEGE BUSINESS OFFICE."**

We agree with the finding and are taking steps to implement the recommendation. Specifically, the Bookstore Manager will perform a monthly review of Business Office disbursements charged to operations. Exceptions or questionable items will be reviewed with the Accounting Supervisor.

Responsible Person - Bookstore Manager (Dave Welsey)  
Completion Date - June 1, 2000

ST. PAUL TECHNICAL COLLEGE AUDIT RESPONSES (Continued)

AUDIT FINDING #6 - **"ST. PAUL TC NEEDS TO IMPROVE CONTROLS OVER INVENTORY".**

We agree with the finding and are taking steps to implement the recommendation. We believe a substantial part of the inventory system deficiencies are a direct result of continuing staff shortages in the Business Office, including a vacancy in the position supervising inventory record keeping. Specific steps will be taken to correct the coding issue and the physical movement of equipment within different areas of the College, and more accounting staff time will be devoted to fixed asset and inventory controls when vacant positions are filled.

Responsible Person - Accounting Supervisor (John Palmer)  
Completion Date - August 1, 2000