OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Dakota County Technical College

July 1, 1996, through December 31, 1999

AUGUST 11, 2000 **00-36**

Financial Audit Division

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

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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. Ronald E. Thomas, President
Dakota County Technical College

We have audited Dakota County Technical College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included: financial management, tuition and fees, payroll, operating expenditures, bookstore, and customized training. 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 *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 Dakota County 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 Dakota County 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 August 11, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 27, 2000

Report Signed On: August 7, 2000

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Dakota County 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
Brad White, CPA, CISA	Audit Manager
Carl Otto, CPA, CISA	Auditor-In-Charge
Scott Tjomsland, CPA	Auditor
Ellen Sibley	Auditor
Tory Monson	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Dakota County Technical College and the MnSCU system office at the exit conference held on July 21, 2000:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
Deb Winter	Director of Campus Accounting
John Asmussen	Executive Director of Internal Auditing
Paul Portz	Internal Audit Coordinator
Dakota County Technical College:	
Ron Thomas	President
Connie Garrahy	Director of Business Affairs

Report Summary

Dakota County Technical College operated within available financial resources. During the audit period, the college improved controls to provide reasonable assurance that financial activities were properly recorded on the accounting systems. In fiscal years 1999 and 2000, the college completed timely accounting system reconciliations to the state treasury and local bank account records. The college also corrected significant accounting errors and bank reconciliation differences from previous fiscal years. However, we noted the following compliance concerns and internal control weaknesses impacting the safeguarding of assets and recording of financial activities in the college's accounting systems.

Key Findings:

- The college's Joint Powers Agreement with the local school district was not amended for subsequent changes in responsibilities and staffing, and personnel arrangements created some problems. (Finding 1, page 7)
- Employee access to college computerized business systems was not sufficiently restricted. We recommended the college limit access to the minimum level necessary to complete employee job responsibilities. (Finding 2, page 8)
- The college had poor security over deposit delivery and weak controls over money turned in from remote collection sites. (Finding 3, page 10)
- The college did not ensure sufficient bank collateral was provided to protect bank balances. (Finding 4, page 10)
- The college did not adequately control tuition waivers, assess third party billings, or accurately process tuition refunds. (Findings 5 and 6, pages 15 - 17)
- Some customized training receipt logs could not be located, and accounts receivable controls require improvement. We recommended that the college centrally collect customized training revenues in the business office and coordinate collection of customized training receivables with other outstanding balances. (Finding 7, page 20)
- The college did not properly procure certain items and did not have a control structure to require department approval of certain payments and ensure vendors were paid in a timely manner. We also noted that the college did not adequately safeguard or account for its fixed assets. (Findings 9 through 11, pages 28 - 31)
- The college paid one student a Federal Supplemental Educational Opportunity Grant (FSEOG) in excess of campus policy and did not ensure financial aid overage checks were timely distributed to students. (Findings 12 and 13, page 37)

Agency Response:

In its response, Dakota County Technical College agreed with the report's findings and is taking corrective action to resolve the issues.

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Chapter 1. Introduction

Dakota County Technical College (DCTC) operated as part of Intermediate School District No. 917 in Rosemount through June 30, 1995. On July 1, 1995, the college became part of the Minnesota State Colleges and Universities (MnSCU). Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision 1 authorized the transfer of real property, personal property, improvements, and attachments related to technical colleges to the state.

A Joint Powers Agreement exists between Dakota County Technical College and Intermediate School District 917. This agreement describes the use and care of the property by the two parties. At the campus, the college and the school district both offer and provide training within the buildings and surrounding property. Under the agreement, the technical college reimburses the school district for employee services in the accounting, personnel, payroll, and information systems departments. The school district, in turn, reimburses the technical college for plant operations, maintenance and janitorial services, garbage removal, and other listed services. The 2000 State Legislature passed Chapter 489, Section 14, requiring that the agreement be extended until June 30, 2010.

The college offers more than 50 career majors in a variety of disciplines. For the 1998-99 school year, the college's student population totaled approximately 1,600 full year equivalent students. The mission of Dakota County Technical College is to provide students with the collegiate level skills necessary to be successfully employed in occupations related to their training. Mr. David Schroeder was the college president through August 1999. Dr. Ronald E. Thomas was appointed college president as of September 1999.

The college finances its operations primarily from state appropriations, student tuitions, and fees. The MnSCU system office allocates a portion of the system-wide appropriation to its individual institutions based on a formula. Table 1-1 provides a summary of the college's sources and uses of funds for the fiscal year ended June 30, 1999.

Table 1-1
Dakota County Technical College
Sources and Uses of Funds
Fiscal Year Ended June 30, 1999

	General	Special Revenue	Enterprise
Revenues:			
State Appropriation	$11,144,401	$ 0	$ 0
Tuition and Fees	5,789,093	112,947	58,246
Sales and Services	961,034	375	114,064 (2)
Federal Grants	4,008	1,972,885	0
State Grants	789,830	605,323	0
Private Grants	2,250	245,522	0
Other Income	420,221	48,971	22,778
Total	$19,110,836	$2,986,023	$195,088
Expenses:			
Salaries	$10,831,460	$1,383,542	$163,772
Purchased Services	1,611,413	199,471	6,910
Utilities	740,276	7,187	0
Contract/Consultants	999,337	182,588	1,195
Supplies	1,997,447	62,798	13,449
Financial Aid	479,770	943,311	0
Capital Expenditures	189,612	41,448	25,499
Debt Service-Interest	144,701	0	0
Other Expenses	362,613	88,328	1,903
Total	$17,356,630	$2,908,674	$212,728
Transfers:			
Transfers-In	$ 62,033	$ 83,095	$145,453
Transfers-Out	(290)	(98,548)	(116,949)
	$ 61,743	($ 15,453)	$ 28,504
Change in Fund Balance	$ 1,815,949	$ 61,896	$ 10,864
Beginning Balance, 7/1/98	442,104	340,712	387,938
Ending Fund Balance, 6/30/99	$ 2,258,052	$ 402,608	$398,802

Note 1: This table is prepared using the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from Generally Accepted Accounting Principles (GAAP) in the following ways: MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not received by the close of the books are not included. Capital project revenues and expenditures are not included. Beginning and ending balances do not include all assets, such as accounts receivables or long-term liabilities, such as debt and compensated absences. Compensated absence liabilities at June 30, 1999, were $1,065,334, $95,183, and $5,343 for the General Fund, Special Revenue Fund, and Enterprise Fund, respectively.

Note 2: Enterprise funds do not include all operating costs such as rent or utilities. Enterprise Fund sales and services of $114,064 include gross sales ($559,680) less cost of goods sold ($445,616).

Note 3: The June 30, 1999, fund balance for the General Fund includes an undesignated operating reserve of $1,103,045, as calculated by the college. The college is required to maintain a reserve according to board policy. The remaining balance was restricted for various commitments and other obligations.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Dakota County Technical College operated within its available financial resources. During the audit period, the college improved controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. In fiscal years 1999 and 2000 the college completed timely accounting system reconciliations to the state treasury and local bank account records. The college also corrected significant accounting system posting errors and bank reconciliation differences from fiscal years 1997 and 1998. However, we noted the following concerns affecting the safeguarding of college assets and resources:

- ***The college has not amended its school district Joint Powers Agreement for changes in responsibilities and staffing, and personnel arrangements created some problems.***
- ***Employee access to the college's computerized business systems was not sufficiently restricted.***
- ***The college had poor security over the delivery of bank deposits and weak controls over money turned in from remote collection sites.***
- ***The college did not obtain sufficient collateral to protect bank account balances during peak tuition and financial aid periods.***

Dakota County Technical College uses the MnSCU accounting system to record its financial activity and to initiate transactions. The MnSCU accounting system interfaces transactions into the statewide accounting system (MAPS) to generate warrants from the state treasury. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. Dakota County Technical College administers certain funds, such as financial aid, agency accounts, and enterprise activities in a local bank account. The local bank account also serves as the college's state treasury depository.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates state appropriation funds to Dakota County Technical College, and all universities and colleges, based upon an allocation formula. In addition, Dakota County Technical College, like other campuses, retains the tuition and other receipts it collects to determine the basis for its annual budget.

Dakota County Technical College

Once the college determines its authorized spending level, it allocates spending budgets to various administrative and academic departments. The business office monitors cost center budgets using monthly MnSCU accounting system budget reports. These reports are distributed to college management and individual cost center managers and supervisors.

As noted in Chapter 1, Intermediate School District 917 provided accounting personnel to perform college accounting functions under the Joint Powers Agreement. These school district employees performed both school district and college accounting requiring them to understand three different accounting systems and related policies and procedures. During fiscal years 1997 and 1998, incorrect accounting entries were made and reconciliations revealed differences from the state treasury and local bank balances. At the start of fiscal year 1999, the college hired its own director of business affairs. The college also hired additional staff to handle various accounting duties and reconciliations. The MnSCU Office of Internal Auditing aided the college in correcting errors that had occurred during fiscal years 1997 and 1998. Adjusting entries to the accounting records were prepared, and bank reconciliations were brought up-to-date as of July 31, 1998. Dakota County Technical College currently reconciles its bank account on a monthly basis. The college also timely performs monthly reconciliations between the MnSCU accounting system and MAPS.

Dakota County Technical College and the Dakota County Technical College Foundation entered into an agreement that established the responsibilities of each organization. The foundation has its own board of directors. The college provides administrative support to the foundation, including the salary of the foundation director and an assistant. The foundation board oversees the activities of the director and determines fund raising activities, as well as the distribution of grants and scholarships. Foundation financial statements are prepared annually and are subject to an external audit by an independent CPA firm.

Audit Objectives and Methodology

The primary objective of our review of Dakota County Technical College's financial management structure was to answer the following questions:

- Did the college’s internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management’s authorization?
- Did college controls provide reasonable assurance that assets were safeguarded and that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college have an appropriate operating relationship with related organizations, such as Intermediate School District 917 and the college foundation?
- Did the college comply with collateral requirements regarding local bank accounts?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the individual program areas we audited. We gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. We reviewed security privileges to determine whether the college adequately limited employee access to its computerized business systems. State treasury and local bank transactions posted to the MnSCU accounting system were analyzed to determine if the college properly recorded revenues and expenditures. Local bank activity was also reviewed to determine sufficiency of collateral assigned. Finally, we reviewed the college's contractual agreements and financial transactions with its foundation and Intermediate School District 917.

Conclusions

The college operated within its available financial resources. We noted improved internal controls providing reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. During fiscal years 1999 and 2000, through March 2000, the college completed timely accounting system reconciliations to the state treasury and local bank accounts. The college also corrected significant accounting system posting errors and bank reconciliation differences from fiscal years 1997 and 1998.

We noted, however, that the college had weaknesses in safeguarding its assets and resources. It did not amend its school district Joint Powers Agreement for changes in responsibilities and staffing, and personnel arrangements for financial and technology positions created some problems for the college. We found that employee access to college computerized business systems was not being sufficiently restricted. The college also had poor security over the delivery of deposits and weak controls over money turned in from remote collection sites. In addition, we determined that the college did not obtain sufficient collateral to protect bank account balances during peak tuition and financial aid periods.

1. Dakota County Technical College did not amend its school district agreement for subsequent changes in responsibilities and staffing, and personnel arrangements created some problems.

The college has made significant changes in responsibilities and staffing, which have not been acknowledged in its written Joint Powers Agreement with the school district. The agreement intended an efficient sharing of facilities and personnel, but the parties found that changes were needed to meet their differing operational and management needs. Financial responsibilities have shifted from the school district to the college, and the school district has discontinued college library services. These changes affected the allocation of costs and overhead and should be approved by school district and college management. Additionally, school district personnel continue to have significant responsibilities for the college, most notably in the area of purchasing, state treasury reconciliations, and management information systems. College computer technology needs have never been greater due to new business system implementation and upgrades, and a large share of the current college curriculum involves technology-related courses. However, these staff are employed by the local school district and not directly accountable to college management.

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Dakota County Technical College and Intermediate School District 917 have a Joint Powers Agreement that is in effect from July 1, 1995, through June 30, 2005. The agreement states that the school district furnish accounting, payroll, purchasing, business director, and MIS services. The school district, in turn, reimburses the technical college for plant operations, maintenance and janitorial services, garbage removal, library services, and other listed services. The agreement specifies distribution of costs for services, equipment, and overhead between the respective parties. During fiscal year 1999, the college paid the school district $387,407 while receiving reimbursements totaling $342,218.

Under the Joint Powers Agreement, school district accounting staff were to be responsible for the business affairs of the college, in addition to their school district finances. However, the school district staff had significant problems understanding and adapting to MnSCU's complex accounting and human resources systems. Furthermore, these staff had to learn the state's new computerized business systems, MAPS and SEMA4, in order to reconcile financial activity. This resulted in several incorrect accounting entries and the inability to reconcile state treasury and local bank accounts. Subsequently, the college hired its own director of business affairs, human resources director, and certain other business office employees. Financial cost distributions have been adjusted for these changes; however, the original school district agreement has not been amended. Without a written amendment to the agreement, differences of opinion or disputes over the allocation process could occur between the parties.

Recommendation

- *Dakota County Technical College should amend its school district agreement for changes in responsibilities and staffing. College management should continually evaluate the necessity to directly employ staff for significant technical, academic, or financial roles.*

2. The college faced increased exposure to inappropriate or unauthorized transactions by not adequately restricting employee access to its computerized business systems.

Dakota County Technical College did not adequately restrict computer access to its accounting and payroll/personnel systems. We noted that the college did not cancel access rights for several staff who had terminated employment and did not restrict employee access to the minimum level necessary to perform job responsibilities. Our review of computer access privileges disclosed the following concerns:

Security Administration

- The college did not timely cancel access for several staff who had terminated employment with the college several years earlier or were employed by the school district. We noted three former business managers that left employment in December 1995, March 1998, and August 1998, yet their computer access was not cancelled until February 25, 2000. Also, three school district staff, who had previous college access responsibilities, were not cancelled immediately when responsibilities changed.

Untimely cancellation of computer access created an unnecessary risk exposure for the college.

Tuition/Accounts Receivable

- The college did not limit access to the accounts receivable module to users requiring access to perform job duties. A former system office employee, currently employed at Century College, had ability to update financial transactions in Dakota County Technical College's database. A college financial aid assistant had 'head cashier' access rights, but needed only to view accounts receivable records. We noted that six MnSCU system office employees had access to update the college's accounts receivable balances, but it is unlikely that these staff needed access to actually assist the college. Finally, one MnSCU system office employee had ability to post cash collections for the college, but has no responsibility to do this.
- The college gave several users access to incompatible security groups. The college gave three users full access to cashiering functions, accounts receivable functions, and customer waiver functions. Ideally, individuals who perform cashiering functions should not have access to adjust accounts receivable records or process waivers. Staff with access to cash should not have the ability to enter transactions that could potentially hide the misappropriation of cash.
- The college gave four users accounts receivable 'department head' access rights. These rights gave users the ability to update all accounts receivable functions, including critical information such as tuition and fee rates and waivers. By assigning these powerful access rights to multiple employees, the college essentially eliminated the intended effect of assigning separate security groups in order to eliminate incompatible duties.

Payroll/Personnel

- We found one employee in the business office who had incompatible access to payroll and human resources functions. The employee could create employees and initiate assignments in SCUPPS, as well as process and release biweekly payroll transactions in SEMA4. Ability to update human resource information in SCUPPS could permit the employee to make unauthorized personnel changes resulting in unauthorized payroll transactions.

Recommendations

- *Dakota County Technical College should improve security controls to access its computerized business systems by:*

  -- *promptly canceling access rights for staff who have terminated employment or have job responsibilities that change;*

  -- *limiting employee access, including system office employees, to the minimum level necessary to complete job responsibilities; and*

  -- *eliminating employee access to incompatible functions, where feasible.*

- *If the college is unable to eliminate incompatible access because of staffing limitations, it should develop detective controls, including periodic and independent review of the employee's work.*

3. The college had inadequate security over delivery of deposits and weak controls over money turned in from remote collection sites.

Dakota County Technical College needs to review its method for securing and delivering bank deposits. The college utilized a maintenance employee to deliver deposits to the local bank, placing the employee in a potentially hazardous situation. The college faced increased risk of significant workers' compensation costs if a robbery occurred. The college should consider using a courier service during peak tuition periods and when transporting large amounts of cash. Another option may involve the use of campus security to accompany staff making deposits.

The college also had weak controls when money was turned in from remote collection areas, such as customized training, bookstore, and food service. Staff from these areas dropped off daily cash collections in the business office where it was held in an unlocked safe during normal business hours. Recently, a food service bank deposit bag containing $604 in cash and $223 in checks could not be located, and college staff were unable to determine who was last responsible for it. The college had no sign off procedure to indicate transfer of responsibility for the monies between college offices or staff.

Recommendation

- *Dakota County Technical College should improve security and control over the delivery of bank deposits by:*
  - -- *locking the business office safe during working hours;*
  - -- *obtaining signatures when transferring money between staff; and*
  - -- *acquiring courier service during peak tuition periods, or utilizing campus security to accompany staff making bank deposits.*

4. Dakota County Technical College did not obtain sufficient collateral for its local bank account.

Dakota County Technical College did not have sufficient collateral pledged by its local bank to protect funds held on deposit. During our audit, we found that during the peak tuition collection periods, the college's cash in the bank exceeded the amount of collateral pledged. We found that during January 1999, September 1999, and January 2000, the college exceeded the collateral pledged by over $1 million for up to a week. For example, during January 2000, the college's funds held at the bank exceeded $2 million for four consecutive days; however, the bank pledged collateral valued at $900,000.

Minn. Stat. Section 118A.03 requires that uninsured balances be secured with collateral, computed at market value, of at least ten percent more than the amount on deposit at the close of the business day. The Federal Deposit Insurance Corporation (FDIC) insures a level of $100,000, and any excess must be collateralized by the bank. Without sufficient collateral, the college's bank balances are not adequately secured and could result in losses if deposits are not protected.

Recommendation

- *Dakota County Technical College should work with the local bank and ensure that the college's bank balances are sufficiently collateralized.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted the following weaknesses:

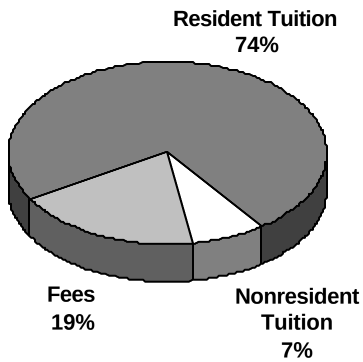
- ***The college assigned several users excessive and incompatible access to computerized systems, as noted in Chapter 2, Finding 2.***
- ***The college did not adequately control tuition waivers and did not collect tuition and fee charges for some students with third party billing agreements.***

For the items tested, except for the following noncompliance issues, the college complied with finance-related legal provisions concerning tuition and fees. The college incorrectly waived tuition for four employees in excess of credits allowed in their respective bargaining unit contract. We also determined that the college did not process tuition refunds in compliance with MnSCU policy.

For the 1999-2000 academic year, the college collected tuition at a resident rate of $70.90 per semester credit and a nonresident rate of $141.80 per semester credit. The state of Minnesota has reciprocity agreements with several states that allow students from those states to attend MnSCU institutions at rates similar to the resident rate. Students from Wisconsin, North and South Dakota, and Manitoba, Canada could attend the college at the resident rate. Students from Kansas, Michigan, Missouri, and Nebraska could attend the college at a rate of $106.35 per semester credit. The college charged all students a variety of standard fees that totaled $9 per semester credit for 1999-2000.

The college collected approximately $4 million in regular tuition and fees during fiscal year 1999. Figure 3-1 shows the breakdown of resident and nonresident tuition and fee revenues.

Figure 3-1
Tuition and Fee Revenue
Fiscal Year 1999



Source: MnSCU accounting system.

In fiscal year 1999, the college implemented the MnSCU Integrated Student Records System (ISRS). ISRS interfaced registrations and collections to calculate and maintain individual student accounts receivable balances.

The college generally dropped students from all courses if they did not pay tuition and fee charges, or arrange a deferment, by the third business day before the start of the semester. For students with past due account balances, the college placed holds on the students' records, preventing them from registering in future semesters until they paid their bill. The college pursued past due accounts receivable by periodically mailing bills to students. If a student did not voluntarily pay, the college referred the account to the Minnesota Collection Enterprise (MCE) or a private collection agency. The collection agencies pursue collection of the outstanding balance until it is paid off or they determine the account is uncollectible. Collection agencies return uncollectible accounts to the college. We did note that the college had old, uncollectible receivables totaling $6,300 that were not recorded on ISRS, and $4,000 of uncollectible receivables that were recorded on ISRS; however, collection is unlikely, and the accounts should be written off.

Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that revenue collections were safeguarded, 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 tuition and fees?

To meet these objectives, we interviewed college employees to gain an understanding of controls over tuition and fees. We reviewed college tuition and fee rates and student registration and accounts receivable records to determine if the college assessed appropriate tuition rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all collected tuition and fees in compliance with applicable legal provisions. Finally, we reviewed collection activity to determine if the college appropriately followed up on outstanding unpaid accounts receivable.

Conclusions

The college's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted that the college had weak controls over tuition waivers, and it did not collect tuition and fee charges for some students with third party billing agreements.

For the items tested, except for the following noncompliance issues, the college complied with finance-related legal provisions concerning tuition and fees. The college incorrectly waived tuition for four employees in excess of credits allowed in their respective bargaining unit contract. We also determined that the college did not process tuition refunds in compliance with MnSCU policy.

5. The college did not adequately monitor and control tuition waivers.

The college's procedures to process and control tuition waivers had significant weaknesses. These weaknesses increased the risk that errors or irregularities related to tuition waivers could occur without detection. We noted the following concerns with the way the college handled tuition waivers:

- The college's human resources office authorized employee tuition waivers and gave the approved forms back to the employees. The employees then presented the forms to the business or registration office to waive tuition charges. The employees could alter the form to obtain a greater benefit than authorized. The college should limit that risk by having the human resources office send a copy of the authorized tuition waiver form directly to the business office.

- The college incorrectly waived tuition totaling $1,593 for four students with employee tuition waivers. For each student, the college waived tuition for more credits than authorized on the employee tuition waiver form. The students should have been obligated to pay for additional credits that exceeded the authorized waiver amounts. To waive tuition charges posted to a student's account in ISRS, the college calculated and recorded the dollar value of the waiver transaction. Instead of calculating the waiver transaction based on the number of credits authorized by the human resources office, the college waived tuition for all the student's registered credits. The amount of tuition incorrectly waived for the four students ranged from $71 to $742.

- During fiscal year 1999, the college did not bill or collect $3,525 of tuition and fees that should have been billed to third parties. The college improperly posted ISRS waiver transactions to waive tuition and fee charges for four students with third party billing agreements. It intended to use a separate computer application to generate third party invoices for those charges, but neglected to do so. Typically, when the college received payments from third parties, it would reverse the ISRS waiver transaction to restore the charges to each student's account and apply the third party payments to those charges. The college waived tuition and fee charges for the four students, but neglected to generate the third party invoice. The college received no revenue for 47 total credits earned by the four students. One student earned 35 of the credits, and a diploma, with the third party never being billed for the tuition.

- The college assigned the responsibility for inputting tuition waiver transactions to its cashier. Employees with access to cash collections should not have the ability to waive tuition charges or alter student account balances. This capability would allow an employee to misappropriate cash by collecting the tuition and waiving the charge in the student's account.

- The college did not develop reports to monitor tuition waiver transactions recorded in ISRS. Without monitoring procedures, the college could not review waiver transactions that were processed to identify possible errors or irregularities. We identified one instance where the college incorrectly reversed waiver transactions against a student account to restore tuition charges. However, in processing the waiver transaction, the college recorded the transaction twice and did not identify the error. As a result, the student's account balance was overstated by $444. If the college developed a management report to monitor waiver transactions, it would have likely detected and corrected the error.

Recommendations

- *Dakota County Technical College should improve control over monitoring and recording of tuition waiver transactions by:*

  -- *forwarding a copy of the authorized employee tuition waiver form to the business office;*
  -- *ensuring accurate calculations and recording tuition waivers within the credit level allowed in the employee's bargaining agreement contract.*
  -- *assigning responsibility for input of tuition waiver transactions to employees who do not handle cash or collect tuition; and*
  -- *establishing a management report to monitor tuition waiver transactions recorded in ISRS.*

- *The college should correct the erroneous tuition waiver transactions posted to the four student accounts and pursue recovery of the lost revenue.*

- *The college should establish procedures to ensure it collects tuition and fees from all sources for students with third party billing agreements. For the four students in question, the college should pursue collection of tuition and fee charges from the appropriate third party.*

- *The college should initiate a correction for the duplicate tuition waiver transaction mistakenly reversed twice.*

6. Dakota County Technical College did not process refunds to students in compliance with MnSCU policy.

The college did not comply with MnSCU policy when processing refunds to students for dropped courses. The college allowed students to drop any course before the sixth class session and receive a full refund of tuition and fees. However, MnSCU Board Policy 5.8 states that each institution should establish a no-obligation drop period at the start of each term, and that students are obligated for any courses dropped after the drop period, or one class day after the first class session, whichever is later. The college established its no-obligation drop period as the first five days of the term. We identified two instances during the fall 1999 semester where the college paid full refunds to students who were not entitled to any refund:

- One student was paid a full refund of $240 for a course dropped on August 30, when the no-obligation drop period ended on August 27. The course was held for three class sessions each week and began at the start of the term. Since the student dropped the course before the sixth class session, the college paid a full refund to the student. According to MnSCU policy, the student could have received a full refund for courses dropped by August 27, but was not entitled to a refund after that date.

- Another student received a full refund of $250 for a course dropped on November 1, more than two months after the start of the term. The course had four class sessions per week but did not begin until October 25. Since the student dropped the course before the sixth class session, the college gave the student a full refund. According to MnSCU policy, the student could have dropped the course by October 26 for a full refund, but was not entitled to a refund after that date.

We noted another instance where the college did not process a refund in compliance with its policy when a full withdrawal from college had occurred. The student, who registered for only one course during fall semester 1999, withdrew after 20 and 30 percent of the class sessions had been held; however, this student incorrectly received a full refund of $170. According to college policy, students withdrawing after 20 percent but before 30 percent of class sessions are held, should receive a 50 percent refund of their tuition and fees. Therefore, the student was only entitled to a refund of $85.

Recommendations

- *The college should establish procedures to ensure it processes refunds to students for dropped courses and total withdrawals in compliance with MnSCU and college policy.*

- *The college should pursue recovery of the overpaid tuition refunds. The college also should review other student tuition refunds to determine accuracy of amounts paid and attempt to recover any amounts that did not comply with established policies.*

Chapter 4. Customized Training

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that customized training tuition was accurately assessed, appropriately safeguarded, and properly recorded in the accounting system. Revenues were assessed based on authorized contracts entered into by the college's customized training department. However, we noted in Chapter 2, Finding 3, that the college had weak controls over money turned into the business office by the customized training department. We also found that the college could not locate receipt logs supporting collection of certain receipts in the customized training department. We feel the college should coordinate collection of unpaid customized training receivables with other outstanding balances.

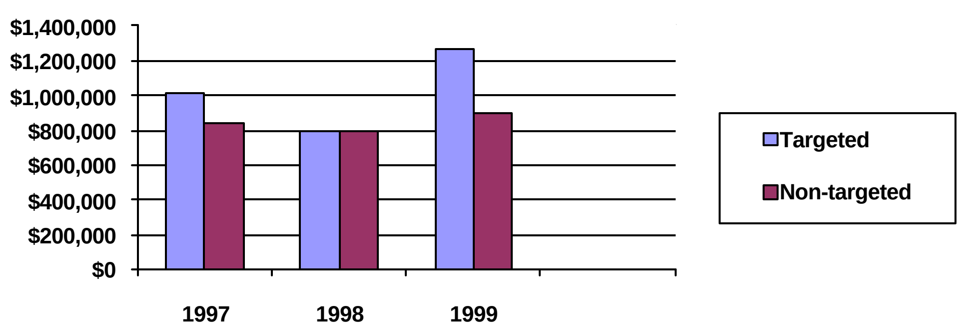
Customized training courses represent a second key tuition funding source for Dakota County Technical College. The department offers pre-designed courses aimed at small businesses and individuals seeking certification. The department also provides custom-designed courses for companies with unique human resource needs.

Customized training courses are grouped into two main categories:

- **Targeted** – courses designed for training done for specific industries, usually based on a contract, and
- **Non-targeted** – other courses designed for credit, non-credit, and hourly-based training.

During fiscal year 1999, revenue for targeted contract courses totaled $1,265,067 while non-targeted course revenue totaled $893,130. Table 4-1 shows a breakdown of total revenues earned for targeted and non-targeted courses by fiscal year.

Figure 4-1
Customized Training Revenues
By Fiscal Year



Source: College customized training records for fiscal years 1997-1999 as of December 31, 1999.

Dakota County Technical College

Audit Objectives and Methodology

We focused our review of the customized training department on the following objective:

- Did the college's internal controls provide reasonable assurance that customized training revenues were accurately assessed in compliance with management's authorization, adequately safeguarded, and properly recorded in the accounting records?

To meet this objective, we interviewed college personnel and reviewed the internal control structure over the customized training department's billing, collection, and deposit processes. We performed analytical reviews and tested customized training revenue transactions to determine if the college properly assessed tuition and safeguarded and deposited all collected revenues. Finally, we reviewed collection activity to determine if the department appropriately followed up on outstanding unpaid accounts receivable.

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that customized training tuition was accurately assessed, sufficiently safeguarded, and properly recorded into the accounting system. Revenues were assessed based on authorized contracts entered into by the college's customized training department. However, we noted in Chapter 2, Finding 3, that the college had weak control over money turned into the business office by the customized training department. We also found that the college could not locate receipt logs supporting collection of certain receipts in the customized training department. We also feel the college should coordinate collection of unpaid customized training receivables with other outstanding balances it collects in the business office.

7. The college could not locate certain receipt logs supporting remote collections in the customized training department, and accounts receivable controls were inadequate.

The college customized training department could not locate certain receipt logs and has ineffective account receivable controls . The department assessed revenues and collected unpaid accounts receivables independent of the college business office. Daily collections were summarized on a log, identifying the company or student making payment, and forwarded to the business office for deposit. However, the college could not locate the log supporting three deposits we tested. Without the log, we could not determine whether the department properly accounted for receivable balances and promptly submitted monies to the business office for deposit.

The accounts receivable records kept by the customized training department were not effectively controlled. The college's customized training department maintained a manual accounts receivable system for monitoring unpaid balances. The department maintained no accounts receivable summary account to control posting to individual customer accounts. Also, sales were not reconciled to cash collections in MnSCU accounting. Lack of these controls decreases the assurance that all detailed collections are being accurately posted. During the audit, we also noted that multiple copies of the accounts receivable lists were on file in the department creating confusion. Without a control account and reconciliation to cash collections, the risk of posting errors or irregularities is increased.

MnSCU is currently developing a computerized module to manage and control customized training revenues and accounts receivable. The system will interface with the MnSCU accounting system and allow a coordinated collection effort with other unpaid receivables.

Recommendations

- *The college should ensure it retains all receipt logs for amounts collected remotely.*

- *The college should centrally collect customized training revenues in the business office and coordinate collection efforts with other unpaid receivables.*

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Chapter 5. Payroll/Personnel

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that employees were compensated in compliance with union contracts and compensation plans, and payroll transactions were properly authorized and accurately reported in the accounting records. However, we noted in Chapter 2, Finding 2, that the college assigned one user incompatible access to human resource and payroll functions. For the items tested, the college compensated employees in compliance with union contracts and compensation plans. However, we found that some departments did not complete some employee's annual performance evaluations in compliance with MnSCU policy and bargaining unit agreements.

Payroll is the largest expenditure for Dakota County Technical College. The college had approximately $12 million in annual payroll and fringe benefits in the past three fiscal years. The college employs approximately 325 full-time and part-time faculty and staff. College employees belonged to the following compensation plans:

- 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, and
- Minnesota United and Technical College Educators Plan (UTCE).

The college used the state's payroll system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stored salary and pay rate information, tracked leave accruals for faculty and excluded administrators, and interfaced transactions into SEMA4. SEMA4 calculated the amounts paid to employees and tracked leave accruals for classified employees.

The college maintained separate human resource and payroll offices to process personnel and payroll transactions. Human resources staff entered all new employee data and made personnel and salary changes to employee's records directly in SCUPPS. Payroll staff gathered timesheets from classified and part-time employees, entered the payroll information into SEMA4, and ensured the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system. Faculty payroll did not require biweekly entries into SEMA4.

Dakota County Technical College

Audit Objectives and Methodology

We focused our review of payroll expenditures on specific audit objectives related to the following questions:

- Did the college's internal controls provide reasonable assurance that employee expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

- Did the college compensate its employees in compliance with applicable bargaining unit contracts and compensation plans and with other significant finance-related legal provisions concerning payroll?

To answer these questions, we interviewed college staff to obtain an understanding of the internal control structure over processing of payroll and personnel transactions. We analyzed employee salaries, reviewed source documents for proper authorization, and recalculated amounts paid to ensure staff were compensated in compliance with union contracts and other compensation plans. We also tested whether employees had current job descriptions and had received annual performance evaluations. Finally, we reviewed the computer system security clearances for staff who had the ability to update payroll and human resources transactions.

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that employees were properly compensated, transactions were properly authorized, and payroll expenditures accurately reported in the accounting records. However, we noted in Finding 1 that the college assigned one employee incompatible access to human resources and payroll functions. For the items tested, the college compensated employees in compliance with union contracts and compensation plans. However, we found that some departments did not complete some employee's annual performance evaluations in compliance with MnSCU policy and bargaining unit agreements.

8. The college did not ensure that all employees received performance evaluations within the timeframes required by union contract.

The college did not ensure that employees receive performance evaluations in a timely manner. We found that 6 of 8 classified employees and 2 of 12 faculty tested did not have current evaluations. The MnSCU board policy states that each college shall have a process in place to evaluate employees, including faculty and administrators. Evaluations are to be completed on a regular basis consistent with requirements found in the applicable union contracts and compensation plans. Most classified employee contracts require annual evaluations, while others may require that employee increases be based upon satisfactory progress as shown on their evaluations. The Department of Employee Relations policy prescribes, at a minimum, that a performance review be completed annually for each employee.

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The faculty contract states that colleges may adopt internal policies to review faculty performance. Current Dakota County Technical College policy requires that faculty receive performance evaluations every three years. The human resource director indicated that the college recently encountered difficulty disciplining an employee because a performance evaluation had not been completed by the supervisor. The college should conduct performance evaluations to advise employees of the quality of their work and to provide the college with a basis for employee raises and promotions.

Recommendation

- *Dakota County Technical College should ensure that all employees receive performance evaluations within the required intervals specified in union contracts or compensation plans.*

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Chapter 6. Operating Expenditures

Chapter Conclusions

Dakota County Technical College lacked controls providing reasonable assurance that operating expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. We found problems with the college's procurement practices and timely payment of vendor obligations. We also determined internal controls did not provide assurance of proper authorization and payment for goods and services actually received. Finally, we noted that the college did not have accurate fixed asset records and had not performed a complete physical inventory since the MnSCU merger.

College faculty and staff incur various operating and administrative expenditures to facilitate the educational mission of the college. Our audit focused on expenditures for purchased and consultant contract services, utilities, equipment, supplies, and supplies purchased for resale. Expenditures for these areas totaled approximately $4.8 million in fiscal year 1999.

To purchase goods or services, college departments submitted an authorized purchase requisition to the purchasing department. The purchasing department obtained price quotes or bid purchases up to $25,000. MnSCU policy requires that purchases over $25,000 require formal sealed bids solicited by public notification. The purchasing department assured that funds were available in the appropriate cost center by initiating a system encumbrance. The college created a purchase order that was sent to the vendor. The business office subsequently received the invoice and matched it to the purchase requisition and purchase order. The business office processed the payments on the MnSCU accounting system.

MnSCU System Procedure 5.5.2, Part 11, Fixed Assets, requires that the institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000. The college tracks new equipment purchased on MnSCU's Fixed Asset Inventory System.

Audit Objectives and Methodology

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

- Did college controls provide reasonable assurance that expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization, and that assets were safeguarded?

- Did the college comply with applicable legal provisions and MnSCU policies concerning procurement and prompt payment of operating expenditures?

To meet these objectives, we interviewed college employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the college complied with applicable legal provisions concerning procurement and prompt payment of college obligations. Finally, we reviewed the college’s process to record and inventory its fixed assets.

Conclusions

The college lacked controls providing reasonable assurance that operating expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management’s authorization. We found problems with the colleges procurement practices and prompt payment of vendor obligations. We also determined internal controls did not provide assurance of proper authorization and payment for goods and services actually received. Finally, we noted that the college did not have accurate fixed asset records and had not performed a complete physical inventory since the MnSCU merger.

9. The college had inadequate controls over procurement and practices for approving purchases.

We noted concerns with the procurement and purchase authorization practices at Dakota County Technical College. College departments incurred obligations without following established procedures governing competitive bids and encumbering funds. In addition, staff used a signature stamp to approve purchase orders providing inadequate documentation of purchase authorizations. The college needs to develop a campus procurement policy clarifying documentation and other controls necessary.

Some departments incurred obligations prior to notifying the purchasing department of the purchase. Departments should submit purchase requisitions to the purchasing department prior to obtaining goods or services. The purchasing department staff verify that funds are available, create purchase orders, and encumber funds. We noted instances where college departments violated MnSCU policy and Minn. Stat. Section 16A.15, subd. 3 requiring sufficient funds in the accounting system before incurring obligation:

- The customized training department purchased equipment for $57,500 from a vendor on July 27, 1999. We noted that the department purchase requisition was dated July 28, 2000, and the purchase order and encumbrance dated July 29, 1999.

- A lease agreement to rent the college's Burnsville training center was not encumbered in the accounting system. The college paid annual rent totaling $65,628.

One department did not comply with the MnSCU Purchasing Policy 5.5.2. The department submitted a $26,000 statement from a vendor for payment. The department did not obtain bids and did not contact the business office prior to incurring these charges. The department did a poor job of anticipating the cost of the purchase, which required subsequent increases. The initial purchase order of $8,000 and three change orders totaling $18,000 exceeded MnSCU's bidding policy for obtaining bids for a purchase from $25,000 to $50,000. The policy states that if the purchase is estimated to exceed $25,000, bids shall be solicited and retained.

Some college departments do not request prior approval from the business office before incurring special expenses. Special expenses are for necessary costs, such as meals for students or employees that would not normally be reimbursable. According to MnSCU policy, approval for special expenses must be obtained in advance. We noted 27 purchases totaling $14,658 for special expenses, such as food and other miscellaneous items, that were not submitted to the business office and approved in advance. College department staff do not appear to be aware of the proper channel for approval of special expenses.

Purchasing staff approve purchase orders with a signature stamp. The employee responsible for approving purchases does not sign the purchase orders. A director of business affairs signature stamp is used to approve purchase orders. Various business office staff involved in purchasing actually use the stamp and the person responsible for a specific purchase cannot be identified. Ideally, actual signatures should be obtained.

Without a structured procurement policy and purchase authorizations, college spending is hard to control and a variety of financial risks are increased.

Recommendation

- *Dakota County Technical College should improve control over procurement and purchasing by:*
  - -- *establishing formal college purchasing policies and ensuring department staff are informed and follow the established policy;*
  - -- *prohibiting staff from incurring obligations prior to an encumbrance of funds in the accounting system by the business office;*
  - -- *ensuring all purchases, exceeding prescribed levels, are bid when required and encumbered in the accounting system;*
  - -- *ensuring all special expenses are approved in advance and submitted to the business office; and*
  - -- *discontinuing use of the business office signature stamp and obtaining actual signatures for purchase approvals.*

10. The college faced increased risk of inaccurate payments by not adequately documenting and controlling certain expenditures.

Dakota County Technical College did not document certain expenditures, and controls assuring propriety and accuracy of payments were weak. We could not locate documentation supporting all payments tested. We found certain transactions were miscoded and paid late, and determined one payment was made for the wrong amount. In addition, controls assuring the receipt of goods and payment authorization require improvement. Without proper documentation and effective controls, erroneous or inaccurate expenditures could be processed and paid.

The college could not locate three invoices supporting expenditures totaling $42,154. We also encountered problems locating documentation for several other payments that were stored in other areas of the college. In addition, we found the college overpaid $655 to one vendor. Payment documentation indicated the vendor was supposed to be paid $32,000, but the college entered $32,655 into the accounting system. Documentation storage and retrieval is crucial to support use of funds and to prevent fraud.

The college processed payments without effective controls ensuring proper authorization and receipt of goods. We found that the business office relied on the receiving dock approval and did not require that receiving evidence, such as packing slips, be forwarded and filed with payment. In fact, the receiving dock did not actually count all incoming items being received. We also noted that some items were received in the various departments and no indication of approval or receipt of goods was documented. Our tests revealed that the departments did not approve 24 of 37 invoices we examined. The college should require that department management or supervisory staff review and approve invoices before payment is made. This practice increases the assurance that vendors are accurately paid for goods or services actually received and decreases the possibility of duplicate payments.

The college did not pay some invoices within 30 days as required by the state's prompt payment law. We found that the business office entered four payments for 55 invoices totaling $55,590 past the 30-day requirement. We also found that bookstore invoices were not submitted to the business office so obligations could be paid in a timely manner. For 8 of 9 items tested, the college did not make payment within 30 days. On numerous occasions, the bookstore would combine several invoices on one payment. For example, one payment was for 12 invoices, totaling $12,467, and was paid one to five weeks late. In a separate example, we noted an invoice for $1,256 that was paid late, and the college lost a vendor discount of $12.56. Minn. Stat. Section 16A.124, subd. 3 requires that agencies pay valid invoices within 30 days following the receipt of the invoice, merchandise, or service, whichever is later. It appears that payment delays resulted because supporting documentation was not timely received from remotely located departments in the college. For example, we noted that 37 invoices were accumulated in the auto parts center and not sent to the business office for several weeks. In addition to lost discounts, untimely payments of vendor obligations increases the risk of duplicate payments.

Finally, there were various coding errors when entering transactions for equipment. For example, the college coded an equipment purchase of $57,500 as a consultant contract payment.

Without accurate expenditure coding, the college cannot rely on the accounting data when monitoring spending, and it cannot properly identify fixed asset acquisitions.

Recommendations

- *Dakota County Technical College should ensure it retains all documentation supporting its payments. The college should also improve internal controls over operating expenditures by:*
  - *verifying the quantity of all incoming goods;*
  - *requiring that receiving evidence be submitted to the business office;*
  - *obtaining department authorization prior to processing payments;*
  - *submitting bookstore vendor invoices to the business office in a timely manner to take advantage of payment discounts and ensure vendors are timely paid.*
  - *promptly paying vendor invoices within 30 days; and*
  - *ensuring that expenditures are coded with proper object codes.*

11. The college did not adequately safeguard or account for its fixed assets.

Dakota County Technical College did not maintain accurate fixed assets records and has not completed a physical inventory at all locations. We noted some donated and new equipment purchases that were not updated onto the fixed asset records, and a substantial amount of disposals or adjustments were not removed. The college also did not properly affix the State of Minnesota stickers to all of its fixed assets. Without complete and accurate fixed asset records, the college cannot detect missing items during its asset inventories and has an inaccurate fixed assets inventory valuation.

A key concern exists with the lack of an accurate fixed assets record. We noted a tractor purchased for $22,500, and nine projectors costing $26,478, were not updated on the college's fixed assets database. As mentioned in Finding 13, the college did not properly identify $57,500 of training equipment it purchased. During the audit, we observed 81 fixed assets in two college labs and could not locate 37 of them on the inventory list. We also noted that the college did not record donated computer equipment on its fixed asset records. In addition, we noted that the audiovisual lab submitted a list of items to be scrapped; however, the fixed asset records were not adjusted. Finally, we noted other adjustments totaling $675,983 for obsolete items that were not deleted from inventory.

The college has not performed a complete physical inventory of fixed assets since the MnSCU merger in 1995. The college began a physical inventory in October 1999 but, as of April 2000, all locations had not been completed. Problems with the accuracy of the fixed asset records and the fact that current locations are not being recorded in the system, make physical inventory counts difficult. In addition, the college did not have a system to identify and record transfers and disposals of equipment.

Finally, the college did not attach identification stickers to certain fixed assets deemed sensitive. MnSCU policies require fixed assets be recorded when exceeding $2,000, but gives discretion to record items under $2,000. The college should attempt to control sensitive items below $2,000 by affixing "Property of the State of Minnesota" stickers on all assets whether or not they are recorded on the inventory listing. The stickers identify state assets and are a deterrent to theft.

Recommendation

- *Dakota County Technical College should improve controls over safeguarding and accounting for its fixed assets by:*

  -- *ensuring all donated and new equipment purchases are updated in the fixed assets inventory records;*
  -- *identifying and verifying locations of fixed assets and developing a process to record transfers and disposals of fixed assets in a timely manner; and*
  -- *attaching "Property of the State of Minnesota" stickers to fixed assets and sensitive items.*

Chapter 7. Bookstore Operations

Chapter Conclusions

College bookstore internal controls provided reasonable assurance that revenue collections were appropriately deposited and accurately recorded in the accounting records. However, as discussed in Chapter 2, Finding 3, we found that the college had weak controls in transferring money between the bookstore and business office staff. Bookstore disbursement controls provided reasonable assurance that payments were properly documented and accurately recorded in the MnSCU accounting system. For the items tested, the college paid vendors in accordance with management's authorization. However, as discussed in Chapter 6, Finding 10, the bookstore did not pay vendor obligations within 30 days as required by Minn. Stat. Section 16A.124, subd. 3 and, as a result, lost some payment discounts.

Dakota County Technical College's bookstore sold textbooks, safety equipment, apparel, and other miscellaneous supplies to students. Bookstore sales were entered into the cash register, which was closed out at the end of each day. Receipts were locked in the safe after the bookstore manager reconciled the sales recorded on the register tape to actual cash receipts being deposited. A daily reconciliation worksheet distinguished between the taxable and nontaxable sales and calculated the corresponding sales tax amount. Funds were forwarded to the college business office for deposit in a local bank account. Business office personnel obtained the daily reconciliation worksheets and recalculated the sales tax amounts shown on the reports. They posted the sales tax amounts as well as the taxable and nontaxable sales onto MnSCU accounting records.

The largest category of bookstore expenditures was for purchases of new books for academic courses. Other bookstore purchases included reading materials and magazines, school supplies, and other items. During fiscal year 1999, the bookstore operated at an estimated loss of ($7,133), as recorded in the MnSCU accounting system and shown in Table 7-1. The loss calculation does not include all direct and indirect costs.

Table 7-1
Bookstore Income Statement
Fiscal Year 1999

	Amount
Sales	$557,516
Cost of Goods Sold	469,144
Gross Profit	$ 88,372
Expenses	95,505
Net Operating Loss	($ 7,133)

Note: These amounts do not include all operating costs for the fiscal year 1999, such as rent and utilities.
Source: Dakota County Technical College's accounting records as of June 30, 1999.

Beginning in fiscal year 2000, the college initiated a policy to allocate a share of maintenance, custodial, and institutional services to the bookstore. The allocation was based on the square footage occupied by the bookstore.

Audit Objectives and Methodology

We focused our review of bookstore receipts and disbursements on the following objectives:

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

- Did the college comply with the significant finance-related legal provisions concerning procurement and payment of bookstore expenditures?

To address these objectives, we interviewed college bookstore and business office staff to gain an understanding of bookstore operations and the roles played by the various college staff. We reviewed the internal control structure over bookstore revenues and expenditures. We analytically reviewed receipt transactions recorded in the MnSCU accounting system and compared these transactions to the cash register tape and daily sales activity records. We also performed tests of bookstore vendor payments to determine accuracy, adequacy of procurement and disbursement documentation, and proper management authorization.

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that bookstore revenues were appropriately deposited and accurately recorded in the accounting records. However, as discussed in Chapter 2, Finding 3, we found that the college had weak controls in transferring money between the bookstore and business office staff. Bookstore disbursement controls provided reasonable assurance that payments were properly documented and accurately recorded in the MnSCU accounting system. For the items tested, the college paid vendors in compliance with procurement requirements and management's authorization. However, as discussed in Chapter 6, Finding 10, we determined that the bookstore did not pay vendor obligations within 30 days, as required by Minn. Stat. Section 16A.124, subd. 3 and, as a result, lost some payment discounts.

Chapter 8. Student Financial Aid

Chapter Conclusions

Dakota County 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. The college's controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid for the appropriate amounts. However, we found that the college paid one student a Federal Supplemental Educational Opportunity Grant (FSEOG) in excess of its campus FSEOG policy. We also noted that the college did not ensure that financial aid residual checks were distributed timely. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

The college participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. Table 8-1 shows federal financial aid payments, as of April 13, 2000, made to students during the 1999-2000 academic year.

Table 8-1
Federal Financial Aid Expenditures
1999-2000 Academic Year

CFDA Number	Program	Total Expenditures
84.032	Federal Family Education Loans (FFEL)	
	Subsidized Stafford Loans	$1,129,269
	Unsubsidized Stafford Loans	$1,279,578
84.063	Federal Pell Grant	$786,217
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)	$43,094
84.033	Federal Work-Study (FWS)	$69,068

Source: College Student Financial Aid System (SARA) as of April 13, 2000.

Students completed an application for financial aid and submitted it to a federal central processing unit. The college received the student financial aid information for enrolled students and used a software system, SARA, to package, award, and disburse financial aid to students.

Students generally received the Federal Pell Grant as the first source of assistance. The federal government did not limit Pell Grant awards to the college; all eligible students received Pell Grant awards. The maximum Pell Grant award for each student during the 1999-2000 award year equaled $3,125. The federal central processing system determined each student's Pell Grant eligibility and award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

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. For Subsidized Stafford Loans, the federal government pays the interest to the lender while the student attends 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.

Dakota County Technical College also participated 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. For fiscal year 2000 through April 13, 2000, the college disbursed Minnesota state grants totaling $417,097.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to financial aid programs as of December 31, 1999:

- Did the college's internal controls provide reasonable assurance that it properly recorded financial activities in the accounting system and managed federal and state student financial aid programs in compliance with applicable laws and regulations?

- Did the college comply with applicable federal requirements for managing federal cash?

To address these objectives, we interviewed employees from the college's financial aid and business offices to gain an understanding of the internal control structure. We evaluated and tested controls over compliance for determining student eligibility, packaging and awarding, and disbursing and recording federal and state financial aid. We also evaluated and tested the college's federal cash management procedures.

Dakota County Technical College

Conclusions

The 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. The college's controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid for the appropriate amounts. However, we found that the college paid one student a Federal Supplemental Educational Opportunity Grant (FSEOG) in excess of its campus FSEOG policy. We also noted that the college did not ensure financial aid residual checks were timely distributed. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

12. Dakota County Technical College awarded and paid one student a FSEOG grant in excess of its campus FSEOG policy.

The college did not comply with its campus Federal Supplemental Educational Opportunity Grant (FSEOG) policy by providing $2,000 to one student during the 1999-2000 school year. Federal regulations limit FSEOG awards to $4,000 annually and require colleges to establish a FSEOG policy to provide funds to the neediest students. Dakota County Technical College adopted a FSEOG policy limiting individual awards to $500 per student. When one student's Pell Grant was reduced, the college financial aid office changed the award to a FSEOG grant for $2,000. We question the additional $1,500 provided to the student in excess of the campus FSEOG policy.

Recommendation

- *Dakota County Technical College should comply with its FSEOG policy and limit individual students FSEOG grants to $500. The college should adjust the student's excessive FSEOG award to another form of financial aid, such as a loan.*

13. The college did not have a process to ensure all financial aid overage checks were timely distributed.

During our audit fieldwork in April 2000, we noted 129 unclaimed student financial aid checks in the college business office. Most checks were dated in January 2000, shortly after the spring semester started. The college indicated that tuition and fees were offset, and these residual checks were not picked up by the students. One Federal Family Education Loan check for $1,274, dated December 1999, was also on hand. It is possible the student decided to decline the loan, and loan proceeds should be returned to the lending institution. If checks remain unclaimed for a reasonable period of time, the checks should be cancelled and funds returned to the appropriate funding source.

Recommendation

- *The college should develop a process to notify and locate students eligible for financial aid overage checks. Unclaimed checks should be cancelled and returned to the appropriate funding source after a reasonable time period has elapsed.*

Status of Prior Audit Issues
As of April 27, 2000

Most Recent Audits

College Audit

Legislative Audit Report 96-43, issued in November 1996, covered the period July 1, 1995, through June 30, 1996. The audit cited eight audit findings related specifically to Dakota County Technical College. The department implemented, or substantially resolved, all of these findings.

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 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 Dakota County Technical College.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. This report did not include any findings related specifically to Dakota County 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. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

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DAKOTA COUNTY
TECHNICAL COLLEGE
Founded 1970

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Rosemount, MN 55068-2999
(651) 423-8200 FAX: (651) 423-8032
Web: www.dctc.mnscu.edu

August 2, 2000

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

Dear Mr. Nobles:

Enclosed is our response to the findings in your audit report for the period July 1, 1996 through December 31, 1999. We thank you for the information provided in the report that will allow us to review our internal controls and management practices.

There has been great improvement since the previous audit, and we would like to point out that DCTC, along with other MnSCU institutions, has had difficulty attracting and retaining qualified accounting staff in the metro area due to noncompetitive state salaries. This relates to at least one of the findings in the report and continues to make financial administration a challenge.

We appreciate the courtesy and professionalism demonstrated by your staff during the audit. If you have any questions or need additional follow-up information, feel free to contact me or Connie Garrahy.

Sincerely,

/s/ Ronald E. Thomas

Ronald E. Thomas Ph D
President

enclosures

copy: Connie Garrahy, Director of Business Affairs

Finding #1 Response: The college will update the joint powers agreement with the school district for changes in responsibilities and staffing, and will evaluate the need for directly employing staff for significant technical, academic and financial roles. The college is in the process of hiring its own MIS staff.
Anticipated completion date Sept 30. Responsible staff: College President and Director of Business Affairs.

Finding #2 Response: The college will review computer security for its business systems and cancel or limit access as appropriate. Due to limited staffing in the payroll/human resources area, however, we feel it is necessary to allow the payroll employee to have access to some HR functions. The compensating control is that the Human Resources Director audits the HR3020 report monthly for changes and since this is a small institution, any unfamiliar personnel assignments would be recognizable.
The Accounts Receivable technician will review waivers done by the tuition clerk.
Anticipated completion date Aug. 31. Responsible staff: Director of Business Affairs.

Finding #3 Response: Security and control over deposits will be improved by instituting a log sheet for deposit bags going in and out of the tuition office, locking the safe when leaving the work area, and using campus security for making bank deposits. We do not think it is feasible to have the safe locked throughout the day, but will keep it locked as often as practicable when deposits and cash are on hand.
Anticipated completion date: Completed.
Responsible staff: Director of Business Affairs.

Finding #4 Response: Collateral will be increased to cover periods of high tuition and loan activity.
Anticipated completion date August 15.
Responsible staff: Director of Business Affairs.

Finding #5 Response: The business office will develop a new procedure with the human resources office for forwarding tuition waiver forms, such as a three-part form. We do think the process for tracking employee waivers between institutions should be reviewed at the system level. Waivers will be cross-checked by an employee other than the employee who input the waiver, and the college will attempt to collect the amounts due from third parties.

The employee tuition waivers that were in error will be reviewed to determine if they should be pursued. The use of the new MnSCU third party billing module should greatly reduce the use of waivers and prevent such reoccurrence. We would like to note that when the accounts receivable system was implemented there was no waiver report available.
Anticipated completion date: August 19.
Responsible staff: Director of Business Affairs.

Finding #6 Response: The registrar and registration staff have reviewed both MnSCU and college policies regarding refunds and will only allow students a full refund if they complete a total withdraw up through the fifth day of the term. Total withdraws after the fifth day of the term will be done in compliance with the dates established in the college refund policy as printed in the student handbook.
Exceptions to the college refund policy will be documented according to the allowed items listed in the college (and MnSCU 5.12) refund policy. Student Services staff will review the new MnSCU refund policy in order to become well-informed on the allowed exceptions. The registrar has reviewed the other refunds from FY00 to ensure no inaccurate refunds have been issued to students. The amounts owed due to refund calculation errors will be reviewed and resolved.
Anticipated completion date: August 30.
Responsible staff: Vice President of Student Affairs.

Finding #7 Response: The college will retain all receipt logs for customized training amounts collected remotely, and the accounting/accounts receivable staff will report to the Director of Business Affairs and collect receipts through the business office and coordinate collection efforts. The use of the MnSCU customized training module should minimize the receivables being billed outside the accounting system.
Anticipated completion date: October 1.
Responsible staff: Director of Business Affairs.

Finding #8 Response: The Director of Human Resources will work with supervisors to ensure that performance evaluations are completed.
Anticipated completion date: October 1 and ongoing.
Responsible staff: Director of Human Resources.

Finding #9 Response: Purchasing policies and procedures will be reviewed and training sessions will be held to inform employees of purchasing procedures, bid thresholds, and when special expense forms are required. Staff will be made aware of Minn.

Statute 16 A 15 which prohibits incurring obligations prior to encumbering funds.
The use of a signature stamp will be discontinued immediately.
Anticipated completion date: October 31.
Responsible staff: Director of Business Affairs.

Finding #10 Response: The warehouse and departmental staff will be made aware of the need to return packing slips to the business office and indicate that goods were received. Approvals to pay invoices are now being obtained. Staff will also be reminded not to hold invoices in batches awaiting payment. Personnel responsible for filing will be reminded of the importance of filing payment documents correctly, and the buyer will closely review object coding on requisitions.
Anticipated completion date: August 7 and ongoing.
Responsible staff: Director of Business Affairs.

Finding # 11 Response: The college will conduct a physical inventory during FY01 and will obtain State property stickers for non-inventoried equipment. Maintenance of the inventory system will be made a higher priority for the warehouse clerk. Currently we do not have a permanent employee in this position but are in the process of hiring.
Anticipated completion date: June 30, 2001.
Responsible staff: Director of Business Affairs.
Finding #12 Response: Although the institution did exceed its institutional policy in awarding a FSEOG grant, it did not exceed the federal maximum award. The college has since updated its institutional policy to allow awards up to $4,000.
Anticipated completion date: Completed.
Responsible staff: Director of Financial Aid.

Finding #13 Response: Unclaimed financial aid checks will be mailed if they are not picked up within ten days.
Anticipated completion date: Completed.
Responsible staff: Director of Business Affairs.