



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Pine Technical College
July 1, 1996, through December 31, 1999



Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Robert Musgrove, President
Pine Technical College

We have audited selected areas of Pine 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, bookstore revenue, and the Employment and Training Center. 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 Pine Technical College complied with the 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 Pine 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 24, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 6, 2000

Report Signed On: August 21, 2000

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Audit Participation

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

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Jeanine Leifeld, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
George Deden, CPA	Auditor
Patrick Phillips, CPA	Auditor
Eric Roggeman	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Pine Technical College at the exit conference held on August 7, 2000:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor , Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Director of Internal Auditing
Paul Portz	Internal Audit Coordinator
Andrew Boss	MnSCU Board of Trustees Audit Committee Chair

Pine Technical College:

Robert Musgrove	President
Garland Kotek	Vice President
Kathy Hefty	Dean of Administrative Services

Report Summary

Pine Technical College operated within available financial 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. Our last audit report, issued in September 1997, found critical control issues in several areas. The college made significant improvement in administering its programs since that audit report was issued.

Key Findings:

- Pine Technical College did not adequately restrict certain computer security clearances. (Finding 1, page 7)
- The college did not properly code some financial transactions in the accounting system. (Finding 3, page 8)
- The college did not adequately control tuition and fee revenue. (Findings 4 – 7, pages 12-14)
- The college did not comply with federal requirements for awarding federal work-study and the Supplemental Education Opportunity Grants to students. (Finding 9, page 22)
- The college did not promptly request federal reimbursement of financial aid disbursements. (Finding 10, page 22)
- The college did not have adequate procedures for handling void and return transactions. (Finding 11, page 26)
- The college did not verify the accuracy of bookstore financial activity on the MnSCU accounting system. (Finding 12, page 27)

Pine Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. This **financial-related audit report** focused on financial management, tuition and fees, employee payroll, administrative expenditures, bookstore revenue, and the Employment and Training Center for the period 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.

College Response:

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

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Chapter 1. Introduction

Pine Technical College was established in 1965 and is one of 36 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system. The largest programs offered by the college include nursing, machine tool, and administrative support. Pine Technical College also offers unique classes such as gunsmithing, locksmithing, and taxidermy. The college is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Dr. Robert Musgrove became the president of Pine Technical College in 1998.

The college finances its operations primarily from state appropriations and student tuitions and fees. The MnSCU system office allocates a portion of the system-wide appropriation to the individual colleges and universities based on a formula. The total of appropriations and dedicated receipts establishes the spending authority for the college. 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
Sources and Uses of Funds
Fiscal Year Ended June 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
<u>Revenues</u>				
State Appropriations	\$3,015,128	\$ 0	\$ 0	\$ 0
Tuition and fees	1,254,389	11,123	9,880	0
Sales and Services ⁽³⁾	12,150	17,351	42,369	0
Federal Grants	0	605,951	0	0
State Grants	434,393	0	0	0
Private Grants	250	1,937,546	0	2,958
Other Income	195,062	681	970	30
Total Revenues	<u>\$4,911,372</u>	<u>\$2,572,652</u>	<u>\$53,219</u>	<u>\$ 2,988</u>
<u>Expenditures/Expenses</u>				
Salaries	\$3,144,524	\$ 965,134	\$15,820	\$ 0
Purchased services	696,803	165,079	2,909	30
Utilities	109,999	13,416	0	0
Contracts/Consultants	252,331	51,912	0	0
Supplies	394,177	101,511	1,455	0
Financial Aid	90,233	1,221,482	0	1750
Capital Expenditures	207,639	0	0	0
Debt Service - Interest	50,053	0	0	0
Other Expenses	104,269	136,518	2,284	450
Total Expenditures/Expenses	<u>\$5,050,028</u>	<u>\$2,655,052</u>	<u>\$ 22,468</u>	<u>\$ 2,230</u>
Transfers:				
Transfers-In	\$ 82,731	\$ 28,014	\$ 30,178	\$ 16,704
Transfers-Out	(115,042)	(44,866)	(30,178)	(16,704)
Net Transfers	<u>\$ (32,311)</u>	<u>\$ (16,852)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Change in Fund Balance	\$(170,967)	\$ (99,252)	\$ 30,751	\$ 758
Beginning Fund Balance (4)	<u>\$ 377,352</u>	<u>\$ 249,733</u>	<u>\$(25,782)</u>	<u>\$ 16,734</u>
Ending Fund Balance ⁽⁴⁾	<u>\$ 206,385</u>	<u>\$ 150,481</u>	<u>\$ 4,969</u>	<u>\$ 17,492</u>

Note (1): This statement is prepared on 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 appropriations, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of books (mid-September) for the budget fiscal year. Revenues not yet received by the close of books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not reflect assets, such as accounts receivable and prepaid assets, or long-term liabilities, such as debt and compensated absences.

Note (2): Compensated absences as of June 30, 1999, were estimated at \$228,881, \$77,199, and \$748 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, 1999.

Note (3): Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and Services - Gross	\$162,788
Cost of Goods Sold	(120,419)
Sales and Services - Net	\$ 42,369

Note (4): Ending fund balance for the General Fund includes an unrestricted reserve of \$206,385, as calculated by the college. Beginning and ending fund balances for the Enterprise Fund include outstanding loans from Rochester Community and Technical College and the college's General Fund, totaling \$101,561. See finding 13 for more information.

Source: Prepared by MnSCU accounting staff as of June 6, 2000

Chapter 2. Financial Management

Chapter Conclusions

Pine Technical College operated within available financial resources. Except for the weaknesses identified below, the college's internal controls provided reasonable assurance that assets were safeguarded and that financial activities were properly recorded on the MnSCU and MAPS accounting systems and were in compliance with applicable legal provisions and management's authorization.

We found the following control weaknesses and instances of noncompliance:

- *The college did not adequately restrict certain computer security clearances.*
- *The college did not always maintain sufficient collateral for its local bank account.*
- *The college did not properly code some financial transactions in the accounting system.*

MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained in the state treasury and local activity accounts maintained outside the state treasury. Pine Technical College uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting then interfaces with the state's accounting system (MAPS) to generate warrants from the state treasury for certain activities. Pine 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 depository for the transfer of funds into the state treasury.

Audit Objectives and Methodology

The primary objectives of our review of Pine Technical College's financial management were 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 the college's internal controls provide reasonable assurance that assets were safeguarded and that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

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- For items tested, did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college establish an appropriate relationship with its foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system as it pertained to each of the individual program areas included in our audit scope. We also gained an understanding of management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. We reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we reviewed local bank activity to determine compliance with legal provisions governing collateral sufficiency. We also reviewed computer security privileges to determine whether the college had adequately restricted access to its computerized business systems. Finally, we assessed the college's relationship with the Pine Technical College Foundation by reviewing the college's contract with the foundation and financial transactions between the two entities.

Budgetary Controls and Financial Operations

The MnSCU system office allocates appropriated funds to Pine 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 using monthly budget reports from the MnSCU accounting system. The monthly reports are also sent to the individual cost center managers.

The college performs daily reconciliations of all receipts processed by the business office and bookstore staff to local bank account deposits, to provide proper accountability for all receipts. However, as noted in Chapter 7, the college has not reconciled its bookstore sales system to MnSCU accounting. The college performs monthly bank reconciliations. In addition, the college reconciles MnSCU accounting and the MAPS system periodically. Since May 1999, the college has had a stable unreconciled difference of \$11,631 between its bank balance and the MnSCU accounting system. As of December 1999, the college was current with all of these reconciliations.

Pine Technical College is affiliated with the Pine Technical College Foundation, a non-profit organization. The foundation was established in July 1999 and has its own board of directors. The purpose of the foundation is primarily to provide student scholarships, capital acquisitions for the college, and support for the faculty. On September 27, 1999, the college gave the foundation \$14,000 from its endowment fund. The \$14,000 was originally part of the Pine Trust Fund. The trust fund was established over 10 years ago when the college was part of the local school district. The foundation had not expended any funds as of December 1999.

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Conclusions

Our last audit report, issued in September 1997, contained significant control issues in the financial management area. The college made improvements in this area since that audit report was issued. Pine Technical College operated within available financial resources. Except for the weaknesses identified below, the college's internal controls provided reasonable assurance that assets were safeguarded, and that financial activities were properly recorded on the MnSCU and MAPS accounting systems and were in compliance with applicable legal provisions and management's authorization. The college did not adequately restrict certain computer security clearances. The college did not always maintain sufficient collateral for its local bank account. Finally, the college did not properly code some financial transactions in the MnSCU accounting system.

1. PRIOR FINDING NOT RESOLVED: Pine Technical College did not adequately restrict certain computer security clearances.

Pine Technical College did not adequately monitor or control access to its computerized business systems. Those systems included the MnSCU accounting system and the SCUPPS and SEMA4 personnel/payroll systems. We identified the following system security weaknesses:

- Five Pine Technical College personnel and three MnSCU system office personnel had incompatible clearances to the MnSCU accounts receivable system. These clearances allowed employees to perform a variety of cashiering, receipt correction, tuition waiver, and accounts receivable functions. One of the college employees and one of the system office employees no longer work for MnSCU.
- Three college employees had incompatible cashiering and student registration clearances. These clearances allowed employees to change both student registrations and make receipt corrections.
- Two employees in the business office had access to both payroll transactions on SEMA4 and human resource transactions on SCUPPS. Access to SCUPPS transactions could permit an employee to make unauthorized personnel changes and use those transactions to initiate improper payroll transactions.
- One former system office employee continued to have unlimited update capabilities for the MnSCU financial aid module.
- College employees working in the bookstore shared passwords for the point-of-sale computer program. By sharing passwords, employees could perform incompatible functions and not be detected.

Recommendations

- *Pine Technical College should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.*

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- *If the college is unable to eliminate incompatible access because of staffing limitations, it should develop detective controls, including periodic, independent reviews of the employees' work.*
- *Pine Technical College should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*

2. Pine Technical College did not always maintain sufficient collateral for its local bank account.

Pine Technical College did not always have sufficient collateral pledged by its local bank to cover the college's bank account balances. Minn. Stat. Section 118A.03 requires that uninsured balances must be pledged 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 banking institution.

During the period December 1998 through January 2000, the college had five months with uncollateralized daily balances. Most of these uncollateralized days occurred when the college received large federal student loan transfers into its bank account. For example, even though the FDIC plus bank-pledged collateral coverage totaled \$296,000 for January 2000, the college's bank balance ranged from \$373,000 to \$409,000 from January 25 through January 31. Without sufficient collateral, the college's bank balances are not adequately secured and could result in a loss of college funds.

Recommendation

- *Pine Technical College should work with the local bank and ensure that all college bank balances are collateralized in accordance with statutory requirements.*

3. PRIOR FINDING NOT RESOLVED: Pine Technical College did not properly code some financial transactions in the accounting system.

Pine Technical College did not properly record some expenditure transactions in the MnSCU accounting system. The college did not use the correct object code for some transactions. In addition, the college did not always use the appropriate occurrence dates when recording disbursements.

The college recorded meal and refreshment purchases as supplies on the MnSCU accounting system. During our review of supply and equipment expenditures, we found that during our audit scope, the college miscoded \$6,712 of meals and refreshments as supplies.

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The college also miscoded expenditures associated with its 1998 presidential search efforts. The college recorded travel, lodging, and other disbursements related to interviews held for the president's position as department head expenditures. These expenditures totaled \$5,070. The miscodings resulted in the college exceeding its department head authorization for the year. The college should record these expenditures using the object codes for the specific types of expenditures it incurred.

The college did not use correct occurrence dates for some expenditures. Seven of twelve administrative disbursements we tested had incorrect occurrence dates. Two of twenty Employment and Training Center disbursements to clients we tested also had incorrect occurrence dates. In several instances, the college recorded the date it placed the order and encumbered the funds as the occurrence date. In other cases, it used the date on the vendor's invoice as the occurrence date. The occurrence date recorded on the accounting system should be the date goods were received or services were provided. Incorrect occurrence dates may cause financial statement amounts for year-end accrued liabilities to be misstated.

Finally, the college used the wrong earnings code for some payroll transactions. For example, it recorded a retroactive lump sum payment of \$18,696 as payment for extracurricular activity. The college also recorded a severance payment of \$8,720 as a regular lump sum payment.

Recommendations

- *The college should follow MnSCU expenditure coding policies to properly record its payroll and other disbursements.*
- *The college should use the appropriate occurrence date when recording disbursements in the accounting system.*

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Chapter 3. Tuition, Fees, and Customized Training

Chapter Conclusions

Pine Technical College's internal controls did not provide reasonable assurance that tuition, fees, and customized training revenue collections were safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. We found that the college had weaknesses in controls in the following areas:

- *The college did not adequately safeguard tuition receipts.*
- *The college did not have adequate controls over tuition waivers.*
- *The college has not established guidelines for allowing students to defer payment of tuition..*
- *The college included an unauthorized rate in its tuition table.*
- *The college did not restrict certain computer access to MnSCU system cashiering and accounts receivable functions (as explained in Chapter 2, finding 1)*

For items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning tuition, fee, and customized training revenue.

Pine Technical College collected tuition and fees each semester from students enrolled in campus programs. The college registered, billed, and collected tuition and fees on the MnSCU Student Information and Registration System during fiscal years 1997 and 1998. Beginning in fiscal year 1999, the college implemented the new MnSCU Student Information 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 registered through their academic advisors and paid tuition at the campus business office. The business office takes deposits to the bank daily, and funds are subsequently swept into the state treasury.

Board authorized tuition rates for academic year 2000 were \$68.60 per credit for residents of Minnesota and reciprocity states, and \$137.20 per credit for residents of other states. The MnSCU accounts receivable module automatically charged student accounts when students registered for classes.

Pine Technical College also collected revenue from customized training, including continuing education courses and contract training courses. The college offered continuing education to the public, as well as contract training courses tailored to the needs of specific businesses. The

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customized training course fees varied based on the cost of delivery. The college also participated in consortium agreements to provide interactive television courses. In addition, the college has been providing vocational and educational programs with employment-related goals for inmates housed at the Willow River/Moose Lake Correctional Facility. The college billed the correctional facility for actual costs, less any amounts offset by state aid.

Audit Objectives and Methodology

Our review of Pine Technical College's tuition, fees, and customized training revenue focused on the following questions:

- Did Pine Technical 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?
- Did the college comply, in all material respects, with significant finance-related legal provisions concerning tuition, fee, and customized training revenue?

To answer these questions, we interviewed college employees to gain an understanding of the internal controls over the billing, collecting, and recording of tuition, fee, and customized training revenue. We reviewed tuition and fee rates, accounts receivable records, and MnSCU accounting records to determine if the college charged students appropriate rates and properly recorded revenue transactions in the MnSCU accounting system.

Conclusions

Pine Technical College's internal controls did not provide reasonable assurance that tuition, fees, and customized training revenue collections were safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. The college did not adequately safeguard tuition receipts. The college did not have adequate controls over tuition waivers, nor has it established guidelines for allowing students to defer payment of tuition. In addition, the college included an unauthorized rate in its tuition table. Finally, we noted systems access concerns as explained in Chapter 2, Finding 1. For items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning tuition and fee receipts.

4. PRIOR FINDING PARTIALLY RESOLVED: Pine Technical College did not adequately safeguard its tuition receipts.

Pine Technical College did not adequately control and safeguard tuition receipts before deposit. The cashiers did not use the secure cash drawer to store incoming receipts. Instead, they kept the receipts in a folder inside an unlocked desk drawer. Cashiers told us that there were difficulties with the cash drawer, so they decided not to use it. Because of the accessibility of the cashiering area to students and employees, it is important that incoming receipts be adequately safeguarded from theft or loss.

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Recommendation

- *The college should use the cash drawer to improve the security over the daily receipts.*

5. Pine Technical College did not have adequate controls over tuition waivers.

Pine Technical College did not adequately document tuition waivers. MnSCU board policy 5.8 allows the college president to waive amounts due to the college for reasons such as employee bargaining agreement benefits, significant personal circumstances, and course conditions. The policy requires the college to document the reason for all waivers. We tested 16 tuition waivers and found that the college did not maintain documentation for 14 of them. In addition, the support for the two documented waivers consisted only of notes written by the cashier who processed the waivers. The cashiers listed the reasons for most of the waivers on the accounting system as “college error” or “significant personal circumstances.”

In addition, there was no evidence of independent review of tuition waivers processed. The college’s cashiers have both the ability to collect receipts and to process tuition waivers. The cashiers told us that they enter waivers in the MnSCU accounting system at the request of other college personnel. Without adequate documentation and approvals, we could not determine if the waivers given by the college were proper.

Recommendations

- *Pine Technical College should maintain adequate supporting documentation for all tuition waivers.*
- *Someone independent of the cashiering function should review and approve all tuition waivers.*

6. PRIOR FINDING NOT RESOLVED: Pine Technical College has not established guidelines for allowing students to defer payment of tuition.

Pine Technical College allowed students who had not paid their tuition to continue to attend classes. The college’s formal registration policy states that “students are not officially enrolled until the registration form and accompanying fees/tuition are recorded in the Registration Office.” Despite this, the college has not dropped students from classes for which they have not paid. The MnSCU accounts receivable system places a registration hold on student accounts 35 days after the start of the semester. The hold prevents students from registering for future classes until they have paid outstanding tuition balances. Not requiring students to promptly pay their tuition increases the risk that the college will not collect tuition due. In addition, the college may have to use additional resources and efforts to collect those receivables. The college should establish a reasonable time limit to allow students to defer payment of their tuition.

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Recommendation

- *Pine Technical College should create a deferment policy and require students to pay their tuition in accordance with the policy.*

7. Pine Technical College entered an unauthorized rate in its tuition rate table.

Pine Technical College's tuition rate table included an unauthorized tuition rate. The college enters information into the MnSCU system's tuition rate table based on rates approved by the MnSCU Board of Trustees. The accounting system then uses the rates, in conjunction with student registration information, to calculate student tuition bills. The college's rate table included a rate of \$102.90 per credit labeled as "Texas Resident Reciprocity." We found no evidence that the MnSCU Board of Trustees ever approved this rate. We also found no evidence that the accounting system ever used this rate to calculate an actual student's tuition bill.

Recommendations

- *Pine Technical College should remove the unauthorized rate from its tuition rate table.*
- *Pine Technical College should establish adequate controls to ensure that tuition table rates are authorized by the MnSCU Board of Trustees.*

Chapter 4. Employee Payroll

Chapter Conclusions

Pine Technical College's internal controls provided reasonable assurance that employee payroll expenditures were accurately recorded in the accounting records and 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 certain employee access to its human resource and payroll systems.

Payroll represents Pine Technical College's largest operating cost annually, totaling approximately \$4 million in fiscal year 1999. The college has institution-wide human resource and payroll functions. The human resources section enters all new employee data and makes changes to employees' records directly into the State Colleges and Universities Personnel/ Payroll System (SCUPPS). The college uses SCUPPS to record and maintain staff assignments, pay rates, and bargaining agreement information. The payroll section gathers timesheets from classified and part-time employees and enters payroll information into the State Employee Management System (SEMA4). SCUPPS interfaces with SEMA4, the state's payroll system, to generate paychecks or direct deposits for college employees.

College employees belong to various compensation plans, including the United Technical College Educators Plan (UTCE), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Personnel Plan for MnSCU Administrators, and the American Federation of State, County, and Municipal Employees (AFSCME).

Audit Objectives and Methodology

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

- Did Pine 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?
- For the items tested, did Pine Technical College comply, in all material respects, with 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 processes. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions.

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We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested payrate increases for management authorization and compliance with bargaining unit agreements. In addition, we summarized and reviewed payroll transactions and compared them 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 system and in compliance with applicable legal provisions and management's authorization. For the items tested, the 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.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that administrative expenditures were properly authorized. However, as noted in Chapter 2, Finding 3, the college did not properly code some expenditures in the accounting system.

For the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures, except that the college failed to comply with the public notice requirement when soliciting bids on two contracts over \$25,000.

During the audit period, the college's administrative expenditures included payments for non-payroll items, such as purchased services, professional and technical contracts, supplies, supplies for resale, and equipment purchases. Administrative expenditures for the year ended June 30, 1999, that we tested during this audit totaled approximately \$2 million.

To initiate a purchase, the department head submits a completed purchase requisition to the business office. The business office ensures that funds are available in the appropriate cost center. The dean of administrative services reviews and approves all purchases. Upon approval, the business office encumbers the necessary funds and creates a purchase order in the MnSCU accounting system. Once the college receives the goods or services, the business office matches the vendor's invoice with the purchase order and the receiving documentation. The college processes payments for administrative expenditures in the MnSCU accounting system.

The college follows a similar process for its purchases of capital equipment. In addition, the business office records all fixed asset purchases exceeding \$2,000, as well as all computers and weapons regardless of price, in the MnSCU accounting equipment module. The information technology group maintains a separate database of computer equipment, which is used primarily for technical purposes. The business office updates the equipment module quarterly, recording changes, transfers, retirements, and other dispositions of assets. In addition, the college takes an inventory of its fixed assets near the end of each fiscal year.

Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were to answer these questions:

Pine Technical College

- Did the 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 concerning administrative expenditures?

To meet these objectives, we interviewed college personnel to obtain an understanding of the internal control structure over the procurement and disbursement processes. We tested a sample of transactions to determine whether the college had appropriate documentation, accurately recorded disbursement transactions on the MnSCU accounting system, and complied with applicable legal provisions. Finally, we reviewed and tested the institution's process of recording and safeguarding its fixed assets.

Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that administrative expenditures were properly authorized. However, as noted in Chapter 2, Finding 3, the college did not properly code some expenditures in the accounting system.

For the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures, except that the college failed to comply with the public notice requirement when soliciting bids on two contracts over \$25,000.

8. Pine Technical College did not comply with the public notice requirement for two large contracts.

Pine Technical College did not comply with MnSCU's procurement policy concerning public notice for contracts expected to exceed \$25,000. In fiscal year 1999, the college did not solicit bids through public notice for two contracts valued at \$77,637 and \$52,514. The college contacted certain vendors privately and asked them to bid on the contracts.

MnSCU policies 5.5.2, Part 4, Subp. C, and 5.5.2, Part 7 require colleges to solicit bids through public notice for contracts expected to exceed \$25,000. The policy requires colleges to obtain sealed bids after notification to all interested parties through an appropriate publication, such as the State Register. These policies are designed to ensure that the contracting institutions receive the best possible value and that procurement is conducted in a fair and open manner.

Recommendation

- *Pine Technical College should comply with the MnSCU policy of public notice for contracts expected to exceed \$25,000.*

Chapter 6. Student Financial Aid

Chapter Conclusions

Pine Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and were generally administered in accordance with applicable federal regulations. However, we found that the college did not have written selection procedures for awarding federal work-study and Federal Supplemental Opportunity Grants to students.

Pine Technical College's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, we found that the college did not promptly request federal reimbursement of financial aid disbursements. In addition, the college did not maintain supporting documentation for those requests. Also, as noted in Chapter 2, Finding 1, the college did not adequately restrict MnSCU personnel access to its financial aid systems.

Pine Technical College participates in the following student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplementary Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- Minnesota State Grant Program

Table 6-1 summarizes the college's financial aid expenditures by program for fiscal year 1999.

Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 1999

<u>CFDA</u> <u>Number</u>	<u>Program</u>	<u>Total</u> <u>Expenditures</u>
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	\$18,688
84.032	Federal Family Education Loan (FFEL)	\$498,592
84.033	Federal Work-Study (FWS)	\$21,829
84.063	Federal Pell Grant	\$291,990

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

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 Pine 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?
- 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?
- For the items tested, did the college comply with applicable federal requirements over receiving federal funds?

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

Financial Aid Process

Students completed an application for financial aid and submitted it to a federal central processing unit. The college received the information for the students that applied for enrollment. Pine Technical College used a packaging software system called SARA to package, award, and disburse student financial aid.

Students generally received the Federal Pell Grant as the first source of assistance. The federal government did not limit Pell Grant funding to the college; all eligible students receive Pell Grant awards. The maximum Pell Grant award for each student during the 1999-2000 award

Pine Technical College

year equaled \$3,125. A federal central processing system determined each student's Pell Grant award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

Under the Federal Family Education Loan (FFEL) Program, loans went to a guaranty agency where private lenders were contacted to provide the loan principal to eligible students. The federal government guaranteed the loan in case of default or cancellation. For Federal Stafford Loans, the federal government paid interest to the lender while the student attended school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrued from the date of origination and the borrower assumed responsibility for the interest. First year students could borrow up to \$2,625 per year under the Federal Subsidized and Unsubsidized Stafford Student Loan programs. Second year students could borrow up to an additional \$3,500.

The Federal Work-Study (FWS) Program and Federal Supplemental Educational Opportunity Grant (FSEOG) are additional sources of federal financial aid. The federal government's 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.

Minnesota residents who demonstrated financial need could receive a Minnesota State Grant, funded by the Minnesota Higher Education Services Office (MnHESO). MnHESO establishes eligibility requirements for the state program and reimburses the college for eligible grant disbursements. The state made the awards to undergraduate students attending schools in Minnesota who did not exceed the equivalent of 12 full-time quarters or 8 full-time semesters of post-secondary attendance. During fiscal year 1999, the college disbursed Minnesota state grants totaling approximately \$80,000 to students.

Conclusions

Pine Technical College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and were generally administered in accordance with applicable federal regulations. However, we found that the college did not have written selection procedures for awarding federal work-study and Federal Supplemental Education Opportunity Grants to students.

Pine Technical College's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, we found that the college did not promptly request federal reimbursement of financial aid disbursements. In addition, the college did not maintain supporting documentation for those requests of funds. Also, as noted in Chapter 2, Finding 1, the college did not adequately restrict MnSCU personnel access to its financial aid systems.

Pine Technical College

9. Pine Technical College did not comply with federal regulations for awarding federal work-study and the Supplemental Education Opportunity Grants to students.

Pine Technical College did not have written selection policies for awarding federal work-study and Supplemental Education Opportunity Grants to students. Pursuant to federal regulations, the college must award these funds based on student need. The federal government allows colleges to define “need” for these funds. However, federal regulation 34 CFR Section 675.10 (b) requires schools to establish written selection procedures for awarding federal work-study. The 1999-2000 Federal Student Financial Aid Handbook requires schools to develop written information on how students apply for aid and how the college determines eligibility. These requirements are intended to ensure that all students have equal access to federal financial aid, and that the college awards federal aid consistently.

Recommendation

- *Pine Technical College should develop written selection procedures for awarding federal work-study and Supplemental Educational Opportunity Grants to students.*

10. PRIOR FINDING NOT RESOLVED: Pine Technical College did not promptly request federal reimbursement of financial aid disbursements.

The timing and amounts of the college’s federal cash requests did not always coincide with the disbursement of those funds. In addition, the college did not maintain documentation to support the calculation of the cash requests.

The college did not request federal financial aid funds as soon as allowed. The college generally waited until 2 to 3 days after it had credited student accounts before requesting sufficient federal PELL and SEOG funds to cover its expenditures. However, in one case, the college did not request federal funds until several days after disbursement. For example, the college disbursed PELL grants totaling \$136,191 on August 24, 1998. They requested federal reimbursement during the period September 2, 1998, through November 20, 1998. Federal regulations allow the college to draw federal funds up to three days before the college makes disbursements to students.

In addition, the college did not request federal funds for work-study promptly. While the college paid student workers bi-weekly, the college did not request funds each pay period. The college only requested federal work-study funds about once per month. During our testing, we found some instances where the school waited between 10 and 21 days after paying students to request federal work-study funds.

Finally, the college did not maintain documentation supporting requests of federal funds. The college generated reports from SARA, its financial aid system, to identify the various types of financial aid applied to student accounts. The college used these reports to determine the amount of federal funds to request. However, it discarded the reports after requesting the federal funds.

Pine Technical College

Federal financial aid regulations require that the school maintain documentation to support each drawdown amount. Without supporting documentation, we could not determine if the college requested sufficient federal financial aid amounts.

Recommendations

- *Pine Technical College should request federal funds to coincide with the disbursement of those funds.*
- *The college should maintain documentation supporting federal funds requested.*

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Chapter 7. Bookstore Revenue

Chapter Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not have adequate procedures for handling void and return transactions. In addition, the college did not perform key reconciliations for bookstore activity. We also found that the college did not prepare complete financial statements for bookstore operations. Finally, as explained in Chapter 2, Finding 1, college employees working in the bookstore shared computer passwords.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenue and cash collections.

Pine Technical College operated a bookstore for the use of its students and faculty. The bookstore employed one full-time clerk. At the beginning of the semester, it also employed one or more work-study students. Occasionally, other employees of the college assisted with bookstore cashiering and other daily duties. The bookstore has not had a manager since 1998. The business office has been responsible for all bookstore activities in the interim.

The bookstore used a point-of-sale computer program called Red Wing to process sales transactions. The system also tracked accounts receivable and inventory. Daily reports from Red Wing summarized the daily sales transactions. The business office reconciled these daily reports at the end of each business day, prepared the deposit, and entered the activity into the MnSCU accounting system.

Students can pay for their purchases with cash, checks, credit cards, financial aid vouchers, and third party charges. The system keeps track of receivables both from the Pine Technical College financial aid office and from the third parties. Bookstore revenue for fiscal year 1999 totaled \$164,262.

Audit Objectives and Methodology

The primary objectives of our review of bookstore revenue were to answer these questions:

Pine Technical College

- Did the college's internal controls provide reasonable assurance that revenue collections were accurately recorded 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 revenue and cash collections?

To meet these objectives, we obtained an understanding of the internal control structure over the revenue process, interviewed college employees regarding the procedures in use, and tested samples of transactions to determine whether the college had appropriate documentation and accurately recorded the cash receipt transactions on the MnSCU accounting system.

Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not have adequate procedures for handling void and return transactions. In addition, the college did not perform key reconciliations for bookstore activity. We also found that the college did not prepare complete financial statements for bookstore operations. Finally, as explained in Chapter 2, Finding 1, college employees working in the bookstore shared computer passwords.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenue and cash collections.

11. PRIOR FINDING PARTIALLY RESOLVED: The college's bookstore did not have adequate procedures for handling void and return transactions.

The bookstore clerk did not maintain documentation for voided transactions. In addition, no one reconciled return slips to the return transactions recorded on the bookstore accounting system. Voided and return transactions are sensitive transactions because they represent decreases to cash collections. The lack of documentation and review of these transactions increases the risk that amounts recorded as returns or voids were inaccurate or inappropriate.

There was inadequate documentation for voided transactions. When the clerk voided a transaction, the bookstore accounting system deleted the original transaction, leaving no audit trail. The bookstore clerk and other employees who occasionally assisted with operating the cash register all have the ability to void any receipt transaction that the system has processed.

In addition, no one reconciled the slips to return transactions recorded on the system. During the audit period, customers returning items completed and signed return slips. However, no one verified that the signed return slips corresponded with the total return transactions entered into the bookstore accounting system.

Pine Technical College

Recommendations

- *Pine Technical College should document voided transactions. Someone independent of the bookstore should review and approve these transactions.*
- *Pine Technical College should reconcile return slips to return transactions recorded on the Red Wing system.*

12. PRIOR FINDING NOT RESOLVED: Pine Technical College did not verify the accuracy of bookstore financial activity recorded on the MnSCU accounting system.

Pine Technical College did not reconcile bookstore inventory and sales activity recorded on its bookstore accounting system to MnSCU accounting. The college used the Red Wing system to account for bookstore sales, accounts receivable, and inventory.

The college did not reconcile bookstore inventory purchases recorded in MnSCU accounting to bookstore inventory recorded on the Red Wing system. The system used a perpetual inventory system. All bookstore sales reduce inventory recorded on the system. Without regular reconciliations between the inventory records and the disbursements recorded on the MnSCU accounting system, inventory records are inaccurate and incomplete. For example, as of June 1999, the Red Wing system showed several inventory items with negative balances, indicating that the bookstore had not posted purchases made in MnSCU accounting to the Red Wing system. Accurate inventory records are important to detect losses due to errors and irregularities. Incorrect or inappropriate charges to the bookstore cost center could occur and go undetected.

In addition, the college did not reconcile daily revenue transactions recorded on the bookstore sales system to MnSCU accounting. The Red Wing software captures the business activity for the day. The system's daily report provides the basis for the entry in MnSCU accounting. Not reconciling Red Wing to MnSCU increases the risk that errors could occur and go undetected. We also noted a \$1,700 discrepancy in the accounts receivable balances between the two systems.

Recommendations

- *Pine Technical College should periodically reconcile bookstore inventory purchases with the expenditures recorded on the MnSCU accounting system.*
- *The college should reconcile revenue and accounts receivable recorded on the Red Wing system to the MnSCU accounting system.*

Pine Technical College

13. PRIOR FINDING NOT RESOLVED: Pine Technical College has not measured the financial results of its bookstore operations.

Pine Technical College did not prepare financial statements for its bookstore. In addition, the bookstore did not charge certain indirect costs such as rent, utilities, and depreciation expenses to its operations. As a result, expenses were not properly matched to revenue. Without complete financial statements, the college cannot determine the bookstore's overall financial position. The bookstore has an outstanding loan payable to Rochester Community and Technical College for the amount of \$75,000, which matures in June 2001. The bookstore entered into the loan agreement on July 1, 1996. The purpose of the loan was to provide cash flow for purchasing textbooks and supplies for sale to students. Additionally, the bookstore has a payable of \$26,561 due to the General Fund. The bookstore account was in the college's General Fund prior to the MnSCU merger. Complete and accurate financial information on the bookstore is necessary in making decisions concerning mark-ups and purchases.

Recommendation

- *Pine Technical College's bookstore should prepare a complete set of financial statements for the bookstore, including cost of good sold and allocations of indirect costs.*

Chapter 8. Employment and Training Center

Chapter Conclusions

Pine Technical College's internal controls provided reasonable assurance that Employment and Training Center financial activities were properly administered. However, we found that center management did not always authorize center expenditures for aid to clients. The college adequately documented and properly recorded receipt and disbursement transactions on the MnSCU accounting system.

Pine Technical College houses an Employment and Training Center. The college recovers the costs of running its center programs through reimbursements from the state, the Central Minnesota Jobs and Training Services (CMJTS), and various counties. Employment and Training Center personnel are employees of the college. The college recovers payroll costs through program reimbursements.

The college runs federal, state, and county programs to aid dislocated workers through the center. The college entered into a contract with CMJTS office to administer these state and federal programs. The college also entered into contracts with the various counties to administer related childcare programs. Table 8-1 presents a brief description of each program administered through the center.

Table 8-1
Employment and Training Center Programs
Fiscal Year 1999

Statewide Minnesota Family Investment Program (S-MFIP)

A statewide welfare reform initiative that expects, supports, and rewards work. The focus is to support working families with the goals being to reduce poverty and dependency on food welfare through employment.

Food Stamp Employment and Training Program (FSET)

A program designed to assist food stamp recipients in finding permanent work. This is accomplished by helping participants learn about the world of work by providing workshops and individual case management services.

Minnesota Family Investment Program (MFP)

A program, located in Mille Lacs County, built on four goals: (1) help families increase their income; (2) support families' transition to self-sufficiency; (3) prevent welfare from becoming a long-term source of primary income; (4) simplify the system.

JTPA Classroom Training

A program that offers economically disadvantaged, eligible participants assistance with books and tuition while attending the post-secondary institution of their choice. The goal of JTPA classroom training is to be trained in an occupation that will lead to self-sufficiency.

Child Care funds for Isanti, Mille Lacs, and Pine County

A program which helps participants pay for child care as they work on their plans for self-sufficiency.

Child Care Resource and Referrals Program (CCR&R)

Its primary goal is to ensure that all children have access to quality, nurturing environments. The services include assistance in locating care, providing individual referrals for child care, consultation on how to select a provider, information about licensing regulations, and information about special services available in the communities for parents to access.

Source: Employment and Training Center website.

Pine Technical College

Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that Employment and Training Center financial activities were properly administered?
- Did the college adequately document, appropriately approve, and properly record receipt and disbursement transactions on the MnSCU accounting system?

To answer these questions, we interviewed college staff to gain an understanding of the accounting processes over receipts and disbursements. We also tested a sample of receipts and disbursements to determine if the college had adequate supporting documentation for these transactions, if the transactions complied with certain contract provisions, and if the college properly recorded the transactions in the MnSCU accounting system.

Conclusions

Our last audit report, issued in September 1997, contained several critical control issues related to the Employment and Training Center. The college made significant improvement in this area since that audit report was issued. Pine Technical College's internal controls provided reasonable assurance that Employment and Training Center financial activities were properly administered. However, we found that the college's internal controls did not provide reasonable assurance that center management authorized center expenditures for aid to clients. The college adequately documented and properly recorded receipt and disbursement transactions on the MnSCU accounting system.

14. The college did not properly authorize some client support service disbursements.

The center's manager did not authorize some payments to clients for support services. During our review of support service requests and purchase orders, we found that the center manager did not approve 15 of 20 items tested. Case managers at the center determine which services a client is eligible to receive. The caseworkers prepare and sign the support service requests. The business office receives the requests and issues checks to the clients or to vendors on the clients' behalf. The college should establish procedures to ensure that payment requests are appropriate.

Recommendation

- *The college should require an adequate level of review and approval for all support service disbursements.*

Status of Prior Audit Issues As of June 6, 2000

Most Recent Audits

College Audit

Legislative Audit Report 97-47, issued in September 1997, covered the college's material activities and programs, including tuition and fees, payroll, supplies and equipment, student financial aid, bookstore operations, and the Employment and Training Center. The report contained 35 findings. The college implemented the recommendations for 26 of the findings. We have repeated portions of 9 prior findings in the current report as Findings 1, 4, 5, 7, 11, 12, 13, and 14.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, **Legislative Audit Report 99-19**, issued in March 1999, and , **Legislative Audit Report 98-16**, issued in March 1998, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the years ended June 30, 1999, 1998, and 1997, respectively. We audit the federal financial aid programs on an annual basis as part off the Single Audit of the state's federal expenditures. These reports did not include any findings related specifically to Pine Technical College.

State of Minnesota Audit Follow-Up Process
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<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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PINE TECHNICAL COLLEGE

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August 17, 2000

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Pine Technical College Audit Report for the period July 1, 1996, through December 31, 1999. We have reviewed the audit findings and recommendations and discussed those with our staff and with the staff at the Minnesota State Colleges and Universities System. We offer the following response to the recommendations as follows:

Finding #1:

Pine Technical College did not adequately restrict certain computer security clearances.

Recommendations

Pine Technical College should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.

If the college is unable to eliminate incompatible access because of staffing limitations, it should develop detective controls, including periodic, independent reviews of the employees' work.

Pine Technical College should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.

College response

We concur with this finding and recommendation. In August 2000 the college CIS department eliminated unnecessary and unauthorized and incompatible clearances.

- The college will establish a formal policy and procedure to review user access and security by August 31, 2000.

- The Dean of Administrative Services and the Director for Computer Information Systems will review security access quarterly.

Responsible Staff: Kathy Hefty, Dean of Administrative Services, and Ken Ries, Director of Computer Information Systems.

Date Projected for Completion: Completed August 15, 2000. Subsequent quarterly security checks will be done per college policy effective August 1, 2000.

Finding #2:

Pine Technical College did not always maintain sufficient collateral for its local bank account.

Recommendation

Pine Technical College should work with the local bank and ensure that all college bank balances are collateralized in accordance with statutory requirements.

College response

The college concurs with this finding. College personnel have already met with officials at the local bank to establish a procedure for notification so that collateral can be increased at times when the college receives large federal student loan transfers into the bank account.

- The college will establish a notification system to keep bank officials aware of their statutory responsibility and requirements for maintaining adequate collateral.

Responsible Staff: Kathy Hefty, Dean of Administrative Services

Date Projected for Completion: Completed on August 15, 2000.

Finding #3:

Pine Technical College did not properly code some financial transactions in the accounting system

Recommendations

The college should follow MnSCU expenditure coding policies to properly record its payroll and other disbursements.

The college should use the appropriate occurrence date when recording disbursements in the accounting program.

College response

We concur with this finding.

- The college will ensure that MnSCU expenditure coding policies are followed in recording payroll and other disbursements.
- Administrative Services staff have been trained on MnSCU policies.
- The college will also post proper occurrence dates when recording disbursements in MnSCU accounting system.

Responsible Staff: Kathy Hefty, Dean of Administrative Services; Karen Mansavage, Accounting Officer.

Date Projected for Completion: Completed.

Finding #4:

Pine Technical College did not adequately safeguard its tuition receipts.

Recommendations

The college should use the cash drawer to improve the security of the daily receipts.

College response

We concur with this finding.

- The college personnel will use an appropriate cash drawer to improve security.

Responsible Staff: Kathy Hefty, Dean of Administrative Services.

Date Projected for Completion: Completed.

Finding # 5:

Pine Technical College did not have adequate controls over tuition waivers.

Recommendations

Pine Technical College should maintain adequate supporting documentation for all tuition waivers.

Someone independent of the cashiering function should review and approve all tuition waivers.

College response

We concur with this finding.

The College has developed a form for processing tuition waivers. The Dean of Administrative Services and/or the Dean of Student Affairs will review and approve all tuition waivers in the future.

Responsible Staff: Kathy Hefty, Dean of Administrative Services; Phil Schroeder, Dean of Student Affairs

Date Projected for Completion: Completed.

Finding #6:

Pine Technical College has not established guidelines for allowing students to defer payment of tuition.

Recommendations

Pine Technical College should create a deferment policy and require student to pay their tuition in accordance with the policy.

College response

The college concurs with this finding.

- The college Leadership Team will develop a deferment policy to reflect current practice and MnSCU regulations and require students to pay tuition in accordance with that policy.

Responsible Staff: Kathy Hefty, Dean of Administrative Services

Date Projected for Completion: September 15, 2000.

Finding #7:

Pine Technical College entered an unauthorized rate in its tuition rate table.

Recommendations

Pine Technical College should remove the unauthorized rate from its tuition rate table.

Pine Technical College should establish adequate controls to ensure that tuition rates are authorized by the MnSCU Board of Trustees.

College response

We concur with this finding.

- The unauthorized rate has been removed from the tuition rate table.
- The office of Administrative Services will review the rate tables in the MnSCU system each year prior to the start of each semester in order to ensure that all tuition rates reflect those authorized by the MnSCU Board of Trustees.

Responsible Staff: Kathy Hefty, Dean of Administrative Services; Phil Schroeder, Dean of Student Affairs.

Date Projected for Completion: The unauthorized rate has been removed. The control process will be implemented immediately, effective August 15, 2000.

Finding #8:

Pine Technical College did not comply with the public notice requirement for two large contracts.

Recommendations

Pine Technical College should comply with the MnSCU policy of public notice for contracts expected to exceed \$25,000.

College response

We concur with this finding.

- The college will train the appropriate personnel on the requirements of MnSCU's procurement policy.
- All future contracts expected to exceed \$25,000 will be properly advertised under the public notice requirement.

Responsible Staff: Kathy Hefty, Dean of Administrative Services; Garland Kotek, Vice President of Academic Affairs; Robert Musgrove, President.

Date Projected for Completion: Completed.

Finding #9:

Pine Technical College did not comply with federal regulations for awarding federal work-study and the Supplemental Education Opportunity Grants to students.

Recommendations

Pine Technical College should develop written selection procedures for awarding federal work-study and Supplemental Educational Opportunity Grants to students.

College response

We concur with this finding.

- The college will develop an appropriate policy and procedure for awarding work-study and Supplemental Educational Opportunity Grants. The policy will include a definition of need.
- Policy will comply with Federal Regulation 34 CFR, Section 675.10 (b).

Responsible Staff: Phil Schroeder, Dean of Student Affairs; Susan Pixley, Financial Aid Officer.

Date Projected for Completion: September 15, 2000.

Finding #10:

Pine Technical College did not promptly request federal reimbursement of financial aid disbursements.

Recommendations

Pine Technical College should request federal funds to coincide with the disbursement of those funds.

The college should maintain documentation supporting federal funds requested.

College response

We concur with this finding.

- The college will develop a procedure and timeline in order to request federal funds on a timely basis in coordination with the disbursement of those funds.
- College personnel will maintain documentation supporting those requests.

Responsible Staff: Kathy Hefty, Dean of Administrative Services; Phil Schroeder, Dean of Student Affairs; Susan Pixley, Financial Aid Officer.

Date Projected for Completion: August 30, 2000.

Finding #11:

The college's bookstore did not have adequate procedures for handling void and return transactions.

Recommendations

Pine Technical College document voided transactions. Someone independent of the bookstore should review and approve these transactions.

Pine Technical College should reconcile should return slips to return transactions recorded on the Red Wing system.

College response

We concur with this finding.

- The college has already developed a procedure for documenting voided transactions and for validation of those by a staff member independent of the bookstore.
- The college has already developed a procedure and policy for reconciling return slips to return transactions recorded on the Red Wing system.

Responsible Staff: Kathy Hefty, Dean of Administrative Services.

Date Projected for Completion: Completed.

Finding #12:

Pine Technical College did not verify the accuracy of bookstore financial activity recorded on the MnSCU accounting system.

Recommendations

Pine Technical College should periodically reconcile bookstore inventory purchases with the expenditure recorded on the MnSCU accounting system.

The college should reconcile revenue and accounts receivable recorded on the Red Wing system to the MnSCU accounting system.

College response

We concur with this finding.

- The college has already developed the procedure necessary to reconcile inventory purchased with expenditures.
- The college has also developed a procedure and process for reconciling revenue and accounts receivable recording on its software system to those on MnSCU accounting system.

Responsible Staff: Kathy Hefty, Dean of Administrative Services.

Date Projected for Completion: Completed.

Finding #13

Pine Technical College has not measured the financial results of its bookstore operations.

Recommendation

Pine Technical College's bookstore should prepare a complete set of financial statements for the bookstore, including cost of goods sold and allocations of indirect costs.

College response

The college concurs with this finding.

- As of the end of FY00, the bookstore had generated its first set of financial statements in the form of a profit and loss/income and expense statement.
- The college will begin an internal cost allocation study to determine the appropriate allocation of indirect costs to the bookstore.

Responsible Staff: Bookstore Manager; Kathy Hefty, Dean of Administrative Services; Karen Mansavage, Accounting Officer.

Date Projected for Completion: September 30, 2000. In the future, financial statements for the bookstore will be issues on a semester basis and reported to the college's Leadership Team.

Finding #14:

Pine Technical College did not properly authorize some client support disbursements.

Recommendations

The college should require an adequate level of review and approval for all support service disbursements.

College response

The college concurs with this finding.

- Employment and Training Center staff will be examining current policy to determine the appropriate level of center management review and develop a revised policy to reflect a cost efficient method of reviewing support service disbursements, including options such as file review and other appropriate control measures.

Responsible Staff: Mary Bucher, Director of the Employment and Training Center; Kathy Hefty, Dean of Administrative Services.

Date Projected for Completion: September 30, 2000.

Sincerely,

/s/ Robert L. Musgrove

Robert L. Musgrove, Ph.D.
President, Pine Technical College

RLM/jgw