OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minneapolis Community and Technical College
July 1, 1999, through June 30, 2001

AUGUST 8, 2002 **02-48**

Financial Audit Division

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

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OFFICE OF THE LEGISLATIVE AUDITOR
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Members of the Legislative Audit Commission

Dr. James McCormick, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Mr. Phillip Davis, President
Minneapolis Community and Technical College

We have audited the financial activities of Minneapolis Community and Technical College for the period July 1, 1999, through June 30, 2001, as further explained in this report. Our audit scope focused on overall financial management, tuition and fees, bookstore operations, employee payroll, and administrative expenditures. Our audit scope did not include federal financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. The following Report Summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. The standards require that we design the audit to provide reasonable assurance that Minneapolis Community and Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the objectives of the audit. The 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 Minneapolis Community and Technical College, and members of the Minnesota State Colleges and Universities Board of Trustees. The restriction is not intended to limit the distribution of this report, which was released as a public document on August 8, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 14, 2002

Report Signed On: July 31, 2002

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Gena Hoffman	Auditor
Steven Johnson, CPA	Auditor
Linda Pha	Auditor
Karyn Dee	Student Worker

Exit Conference

We discussed the results of the audit with the following representatives of the Minneapolis Community and Technical College and the Office of the Chancellor at an exit conference held on July 18, 2002:

MnSCU Office of the Chancellor:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Financial Reporting Director
Beth Buse	Deputy Director, Internal Audit
Tracey Gran	Regional Audit Coordinator
Minneapolis Community and Technical College:	
Josephine Reed-Taylor	Senior Vice President
Tammy McGee	Vice President, Financial Operations
Sandra Weston	Business Manager

Report Summary

Minneapolis Community and Technical College made substantial progress with the overall management of its financial operations since our last audit in fiscal year 1999. During the audit period, the college operated within available resources and, except as noted below, has improved its internal control structure, including controls to provide assurance over compliance with applicable legal provisions. Although the college implemented many of the improved financial practices in fiscal year 2002, the college has emphasized structural organizational changes and process improvements that should provide reasonable assurance over its financial operations, assuming its commitment to sound financial management practices continues.

Specifically, we concluded that the college had an adequate process for recording and depositing tuition revenue during the audit period. However, the controls over tuition waivers and accounts receivable were not fully developed until after the end of the audit period. For payroll and bookstore activities, the college's controls provided reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that transactions were accurately recorded in the accounting records. The college's controls provided reasonable assurance that cash receipts and bookstore inventory were adequately safeguarded. As noted below, however, the college needs to continue to strengthen its controls over financial operations in certain areas. Many of the following issues relate to prior audit findings that had been partially corrected at the time of our audit.

Key Findings and Recommendations

- We found several instances where individuals had unnecessary or incompatible access to the college's business systems. We recommended that the college review access reports and reevaluate the access granted to ensure an adequate separation of duties and to prevent unauthorized access to data. (Finding 1, page 6)
- The college did not adequately monitor collateral requirements for local bank accounts, which resulted in several instances of noncompliance with statutory collateralization requirements. We recommended that the college monitor collateral requirements, including estimating collateral needs based on current bank activity. (Finding 3, page 8)
- We found numerous exceptions to excluded administrators and faculty leave reporting. We recommended that the college ensure that faculty and excluded administrators accurately and timely report leave activity. (Finding 4, page 19)
- Our testing of administrative expenditures through June 30, 2001, identified numerous exceptions where the college incurred obligations prior to encumbering funds or negotiating contracts and could not find documentation supporting expense transactions. Our testing of fiscal year 2002 transactions identified some minor exceptions but demonstrated the college had improved its controls and compliance over administrative expenditures. We recommended that the college implement its plans to monitor compliance with its revised procedures and controls over administrative expenditures. (Finding 5, page 23)

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Chapter 1. Introduction

Minneapolis Community and Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. It offers both liberal arts and technical programs to over 9,500 students each year. The college has about 5,000 full-year equivalent students who major in a variety of programs such as liberal arts, law enforcement, computer support and network administration, nursing, and graphic design.

Minneapolis Community and Technical College is an urban two-year institution of higher education with a mission to offer high quality, lifelong learning opportunities within a student-centered environment. Mr. Phillip Davis is the president of the college.

The college is affiliated with the Minneapolis Community and Technical College Foundation, an autonomous, non-profit organization. The two organizations entered into an agreement that established the responsibilities of each organization. The college provided administrative support to the foundation during the audit period. The foundation offered scholarships and emergency loans to students in addition to supporting special programs such as the Martin Luther King celebration. The foundation prepares financial statements annually that are subject to an audit by an independent CPA firm.

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Chapter 2. Financial Management

Chapter Conclusions

Minneapolis Community and Technical College has made substantial progress with the management of its financial activities and internal control structure since our last audit. Except as otherwise noted, the college's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems, and that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. The college needs to monitor access to its computerized business systems and fully reconcile and record select financial activities in a timely manner. Except for inadequate collateral at times, the college complied with applicable legal provisions regarding local bank accounts. The college's internal controls provided reasonable assurance that it had an appropriate operating relationship with its foundation.

Minneapolis Community and Technical College has taken various actions to improve its financial management structure since the last audit. The college hired and retained qualified employees, assigned job responsibilities to provide an adequate separation of duties, and implemented fundamental financial management controls, such as reconciling key bank accounts, posting financial transactions to the accounting systems in a timely manner, depositing and recording receipts promptly, and safeguarding the college's assets. The college continues to advance its financial management structure and to improve processes.

Minneapolis Community and Technical College receives the majority of its operational funding from General Fund appropriations allocated from the MnSCU Office of the Chancellor. The Office of the Chancellor distributes appropriated funds to all colleges and universities based on an allocation formula. In addition, Minneapolis Community and Technical College, like other colleges, retains tuition and other receipts to arrive at its total authorized spending level. Once the college determines its authorized spending level, it allocates funding to the various administrative and academic programs.

Minneapolis Community and Technical College uses the MnSCU accounting system to record financial transactions. MnSCU accounting transactions that impact funds held in the state treasury update the state's primary accounting system (the Minnesota Accounting and Procurement System) through an automated interface. The state's accounting system generates state treasury warrants for state-appropriated expenditures. The college administers certain funds, such as agency accounts and enterprise activities, in a local bank account. The local bank account also serves as the college's state treasury depository. The college has the responsibility to ensure that the bank adequately secures funds held in the college's account against loss.

Audit Objectives and Methodology

Our review of the college's overall financial management focused on the following questions:

- Did the college's internal controls provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- 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 establish an appropriate operating relationship with its foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the college's use of the MnSCU accounting system for the programs in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and reconciliations of the accounting system to state treasury and local bank accounts. We analyzed and reviewed MnSCU transactions posted to the accounting records. We also reviewed local bank activity to determine compliance with collateral requirements. We reviewed security privileges to determine whether the college adequately limited access to its computerized business systems. Finally, we reviewed the college's relationship with its foundation.

Conclusions

Minneapolis Community and Technical College has made substantial progress with the management of its financial activities and internal control structure since fiscal year 1999. With the following exceptions, the college's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems and that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. As discussed in Findings 1 and 2, the college needs to improve its monitoring of access to computerized systems and fully reconcile and record select financial activities in a timely manner. Except for inadequate collateral at times as noted in Finding 3, the college complied with applicable legal provisions regarding local bank accounts. The college's internal controls provided reasonable assurance that it had an appropriate operating relationship with its foundation.

1. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately monitor access to its computer systems.

During the audit period, Minneapolis Community and Technical College developed a process to semi-annually review access to the modules in the Integrated Student Record System (ISRS). However, this process did not include a review of access to the state's payroll and personnel system (SEMA4). As a result, we identified one employee who previously worked in human resources and continued to have access to SEMA4 for three months after leaving the position.

In addition, the college should further review and restrict system access to only those functions needed for individual employees to perform their job duties. Some examples of unneeded or incompatible security clearances follow.

- We found situations in the cashiering and accounts receivable functions that could leave the college vulnerable:
  --One cashier had the ability to change accounts receivable information and one accounts receivable specialist had cashiering access.
  --Two employees who were neither cashiers nor accounts receivable specialists could change both cashiering and accounts receivable information.
  --One accounts receivable specialist had two user-IDs, one that allowed cashiering access.
  --Another employee had update access but appeared to need only view access to perform job responsibilities.
- Five employees had update access to the equipment module and five other employees had access to update student registration records in the registration modules. None of these employees needed access to these modules to perform their job responsibilities.
- The college was unable to identify the employee associated with two user-IDs with access to the MnSCU Purchase Control System (PCS). In addition, one employee with update access in PCS did not need it to perform job duties.
- The college did not monitor the access granted to MnSCU Office of the Chancellor employees. Most of these employees had view-only access. The college would not know about inappropriate system access granted to these individuals, however, since it did not monitor their security clearances.

Without a complete review of system access, the college could not ensure that only authorized individuals had access to its systems and that the access was appropriate for the job responsibilities. The college is responsible for ensuring that all types of access to its data is reasonable and necessary.

Recommendation

- *The college should review system access reports and reevaluate the access granted to employees to ensure an adequate separation of duties and prevent unauthorized access to data.*

2. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not fully reconcile and record select financial transactions in a timely manner.

Minneapolis Community and Technical College was current with its bank account reconciliations and MAPS to MnSCU reconciliations for all accounts except two. First, the college did not reconcile activity in the Federal Perkins Loan Account for about two years. This account had minimal activity since the college no longer issued new loans to students. From October 1998 through May 2002, the bank statements showed interest earnings each month, a telephone transfer of $1,224 in June 2000, and transfers to the U.S. Department of Education of $7,273 in October 2000. The account balance was $8,900 as of May 2002.

In addition, although the college developed a process to settle its payroll clearing account every two weeks, it did not enter the final transaction to clear out the activity in the account. This was not detected because the MnSCU Office of the Chancellor, with whom the college contracted to perform its MAPS to MnSCU reconciliations, had not reconciled the clearing account since April 13, 2001. While there was no indication of financial mismanagement, the college asked for a reconciliation of the account during our fieldwork, and the Office of the Chancellor completed it on May 24, 2002. As a result, on May 28, 2002 the college entered a transaction for $877,249 to reclassify balances in the clearing account.

Recommendations

- *After reconciling the Federal Perkins Loan Account, the college should work with the MnSCU Office of the Chancellor employees and the United States Department of Education to close the inactive account.*
- *The college should ensure the MnSCU Office of the Chancellor timely reconciles the payroll clearing account, and the college should promptly post any adjustments to the account.*

3. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately monitor bank account collateral requirements.

Minneapolis Community and Technical College did not have a process to adequately monitor collateral requirements. As a result of the last audit, the college increased collateral arrangements with the bank and periodically monitored collateralization requirements after the fact. The college's process, however, did not anticipate collateral needs based on current banking activity and did not monitor collateral on a continuous basis. As a result, the college did not have sufficient collateral for seven days during fiscal year 2001, and its bank balances were under-collateralized several times during fiscal year 2002 through March 31, 2002. The college did not have sufficient collateral for three days in August 2001, two days in September 2001, twenty days in January 2002, one day in February 2002, and three days in March 2002. The amount not sufficiently collateralized ranged from $2,900 to over $6.4 million. Minnesota Statutes require the college to have collateral pledged of at least ten percent more than the amount on deposit. Adequate collateral decreases the college's potential for loss.

Recommendation

- *The college should monitor collateral requirements, including estimating collateral needs based on current bank activity.*

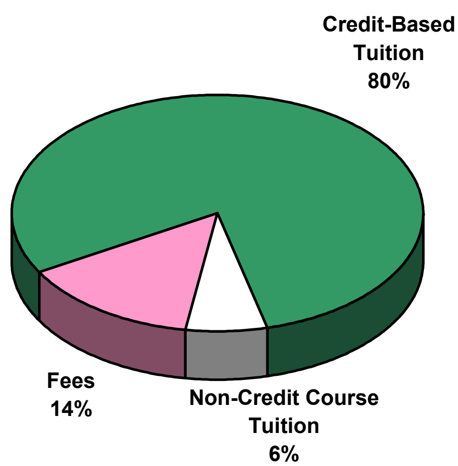
Chapter 3. Tuition and Fees Revenue

Chapter Conclusions

Minneapolis Community and Technical College had an adequate process for recording and depositing tuition revenue during the audit period. However, the controls over tuition waivers and accounts receivable were not fully developed until after the end of the audit period. We reviewed the college's current process and feel it has the structure in place to provide reasonable assurance that tuition and fees receipts were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted some issues with computer security clearances, as discussed in Finding 1 of Chapter 2. For the items tested, the college complied with finance-related legal provisions concerning tuition and fees.

Minneapolis Community and Technical College collected approximately $12.6 million in credit-based tuition and fees during fiscal year 2001. In addition to tuition revenue, the college collected approximately $800,000 in tuition receipts for non-credit courses, including continuing education and contract training courses. Figure 3-1 shows the breakdown of fiscal year 2001 receipts into credit-based tuition, non-credit course tuition, and fees. We discuss these revenue sources in the following sections.

Figure 3-1
Tuition and Fees Revenue
Fiscal Year 2001



Source: MnSCU accounting system.

Credit-Based Tuition and Fees Revenue

The MnSCU Board of Trustees authorized credit-based tuition rates for the 2000–2001 school year of $73.75 per semester credit for residents of Minnesota and other states participating in tuition reciprocity programs. Non-resident tuition rates were $147.50 per semester credit.

The college used the MnSCU Integrated Student Record System (ISRS) to register and bill students and record tuition collections. The accounts receivable module accumulates student charges from a variety of sources. When students pay their bill, employees enter the receipts into ISRS, which automatically applies the receipts to the outstanding balances in a specified priority order. As part of the daily closeout process, college employees produce a report from ISRS that summarizes the daily collections and postings. Employees use this report to compare cash receipts to transactions posted to MnSCU accounting.

Non-Credit Course Tuition

In the area of non-credit course tuition, the college offered continuing education courses to the public and entered into contracts to develop training courses to meet the educational needs of specific businesses or industries. The college used a software package separate from ISRS during the audit period to track non-credit course enrollment, revenue, and receivables.

Audit Objectives and Methodology

Our review of tuition and fees focused on the following questions:

- Did the college’s internal controls provide reasonable assurance that tuition and fees receipts were adequately 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?

To answer these questions, we interviewed college employees to gain an understanding of the process for registering students, assessing tuition and fees, recording receipts, and collecting unpaid accounts. We reviewed tuition and fees rates, student registration data, accounts receivable records, and MnSCU accounting records to determine if the college charged authorized 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 deposited all collected tuition and fees in compliance with applicable legal provisions. We reviewed computer system security clearances to determine if the college adequately limited access to its data. Finally, we reviewed the college’s procedures for monitoring and collecting unpaid accounts.

Conclusions

Minneapolis Community and Technical College had an adequate process for recording and depositing tuition revenue during the audit period. The controls over tuition waivers and accounts receivable, however, were not fully developed until after the end of the audit period. We reviewed the college's current process and feel it has the structure in place to provide reasonable assurance that tuition and fees revenue collections were adequately safeguarded, accurately reporting in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we noted some issues with computer security clearances, as discussed in Finding 1 of Chapter 2. For the items tested, the college complied with finance-related legal provisions concerning tuition and fees.

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Chapter 4. Bookstore Operations

Chapter Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that cash receipts and inventory were adequately safeguarded, and bookstore financial transactions were accurately recorded in the accounting records in compliance with applicable legal provisions and management's authorizations. In addition, the college monitored bookstore financial activities by preparing financial statements and allocating indirect costs incurred to support bookstore operations. For the items tested, the college complied with finance-related legal provisions.

The bookstore at Minneapolis Community and Technical College sells textbooks, school supplies, clothing, gifts, and other items. The bookstore accepts cash, checks, and credit cards. It also establishes charge accounts for students who receive financial assistance from third-party organizations. The bookstore uses a point of sale computer system called PRISM for recording sales. PRISM generates daily sales reports for each cash register. The reports summarize receipts by item sold and type of receipt. Bookstore employees complete a daily cash reconciliation that includes counting cash receipts, comparing receipts to sales reports, and preparing daily deposits and cash reports. Bookstore staff lock receipts in a safe until they prepare the deposit and deliver it to the business office. The business office compiles the daily cash report from the deposit information, makes the bank deposit, and posts the bookstore receipts to MnSCU accounting.

Bookstore employees generate purchase orders in PRISM to order books based on requisitions received from college faculty. When the books arrive, the receiving clerk enters the amounts received into PRISM and generates a receiving report. After verifying that the invoice, purchase order, and receiving report agree, a business office employee enters a transaction into MnSCU accounting to record the expenditure and pay the vendor.

Bookstore employees perform a physical inventory count once a year. Employees adjust the bookstore inventory in MnSCU accounting to reflect the actual inventory on hand.

Bookstore employees prepare income statements to summarize the bookstore's financial activities. The college allocates indirect costs to the bookstore so that management is aware of the full cost of operating the bookstore. However, in accordance with MnSCU policy, the college decided not to charge the bookstore for these indirect costs. Table 4-1 shows the bookstore's revenues and expenses for fiscal years 2000 and 2001, including the amount allocated for indirect costs.

Table 4-1
Bookstore Revenues and Expenses
For the Year Ended June 30

	2000	2001
Sales:		
New Books	$1,385,925	$1,491,493
Used Books	241,189	241,997
School Supplies	92,340	96,716
Other Sales	252,274	262,365
Total Sales	$1,971,728	$2,092,571
Cost of Goods Sold	$1,509,754	$1,787,188
Operating Expenses:		
Personnel	$ 369,226	$ 459,614
Non-Personnel	123,638	196,425
Indirect Charges (1)	296,309	333,785
Total Expenses	$2,298,927	$2,777,012
Profit (Loss) (2)	$(327,199)	$(684,441)

Note (1) The college measures the indirect costs attributable to the bookstore operations, but in accordance with MnSCU policy, the bookstore does not pay those costs.
(2) As of June 30, 2001, the bookstore had a fund balance of $929,000, which included the value of bookstore inventory and accounts receivable.

Source: Minneapolis Community and Technical College Bookstore.

Audit Objectives and Methodology

Our review of the bookstore's financial operations focused on the following questions:

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

- Did the college's internal controls provide reasonable assurance that bookstore disbursements were for goods actually received, and that transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

- Did the college's internal controls provide reasonable assurance that bookstore inventory was safeguarded and accurately recorded in the accounting records?

- Did the college adequately monitor bookstore financial activities?

To meet these objectives, we interviewed college staff responsible for these areas to gain an understanding of the controls over the process of collecting, depositing, and recording receipts. We also discussed the controls over the processes for purchasing, receiving, paying, and recording disbursements. We analyzed financial transactions and reviewed individual transactions to determine if the college properly recorded the financial activities. Finally, we discussed inventory tracking and financial monitoring processes.

Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that cash receipts and inventory were adequately safeguarded, and bookstore financial transactions were accurately recorded in the accounting records in compliance with applicable legal provisions and management's authorizations. In addition, the college monitored bookstore financial activities by compiling and reviewing financial statements. For the items tested, the college complied with finance-related legal provisions.

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Chapter 5. Employee Payroll

Chapter Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately recorded in the accounting records. For the items tested, the college complied with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans. We noted, however, that the college did not adequately monitor and record excluded administrator and faculty leave activity. In addition, the college did not adequately monitor access to the payroll and personnel systems, as noted in Finding 1 in Chapter 2. Finally, the employee who entered payroll data also verified the data entry, which resulted in an inadequate separation of duties. The college changed this process during the audit period so an employee independent of the data entry process reviewed the data input.

Payroll is the largest expenditure category for Minneapolis Community and Technical College. The college's payroll expenditures, including fringe benefits, for fiscal year 2001 totaled about $29.2 million. In fiscal year 2001, the college employed approximately 590 faculty and 340 staff employees. College employees belonged to the following compensation plans:

- American Federation of State, County, and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Excluded Administrators' Plan
- Commissioner's Plan
- Minnesota Community College Faculty Association's Plan
- Minnesota United and Technical College Educators' Plan

The college uses the state's payroll and personnel system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stores salary and pay rate information, tracks leave balances for faculty and excluded administrators, and interfaces transactions into SEMA4. SEMA4 is used to calculate gross pay, determine employer contributions, and process employee deductions. By using SEMA4, the college is able to generate payroll warrants and direct deposit transactions from the state treasury. In addition, SEMA4 tracks leave balances for all classified employees and some unclassified employees.

Minneapolis Community and Technical College

The college maintains separate human resources and payroll offices. Human resources employees enter all new employee data and make personnel and salary changes directly to employee records in SCUPPS. The payroll clerk receives timesheets from classified employees and excluded administrators, enters the payroll information into SEMA4, and ensures the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system. Faculty members do not report hours worked on timesheets; rather, they only report leave taken.

Audit Objectives and Methodology

Our review of employee payroll focused on the following questions:

- Did the college's internal controls provide reasonable assurance that employees were paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately recorded in the accounting records?

- Did the college comply with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans?

To answer these questions, we interviewed college staff to obtain an understanding of the control structure over the processing of payroll and personnel transactions. We analyzed employee salaries, reviewed source documents for proper authorization, and reviewed amounts paid to ensure employees were compensated in compliance with union contracts and other compensation plans. Finally, we reviewed the computer system security clearances to determine if the college adequately limited access to its payroll and human resources data.

Conclusions

Minneapolis Community and Technical College's internal controls provided reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately recorded in the accounting records. For the items tested, the college complied with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans. We noted in Finding 4, however, that the college did not adequately monitor and record excluded administrator and faculty leave activity. In addition, the college did not adequately monitor access to the payroll and personnel systems as reported in Finding 1 in Chapter 2. Finally, the employee who entered payroll data also verified the data entry, which resulted in an inadequate separation of duties. The college changed this process during the audit period so an employee independent of the data entry process reviewed the data input.

4. Minneapolis Community and Technical College did not adequately monitor and record excluded administrator and faculty leave activity.

The college did not have a process to ensure accurate leave reporting for excluded administrators and faculty. As a result, leave balances and compensated absence obligations were overstated, and certain employees potentially used more leave than allowed by the bargaining agreements.

For excluded administrators, the college's policy requires the submission of biweekly timesheets showing hours worked and leave taken. Since these employees are salaried, the payroll clerk does not require an authorized timesheet before processing payroll. However, because there is no assurance that all excluded administrators submit timesheets each pay period, leave taken might not be entered into SCUPPS or might be untimely entered.

In contrast, when faculty members are absent, they contact the receptionist in the Academic Affairs office. The receptionist enters the employee's name, leave date, type of leave, and other information into a database. Faculty members are then required to submit approved leave slips to the receptionist, who forwards them to human resources for entry into SCUPPS. However, if the faculty member does not complete a leave slip, the leave taken does not get entered into SCUPPS. No one ensures that all leave taken gets entered into SCUPPS, since there is no reconciliation between leave activity recorded in the Academic Affairs leave database, leave slips, and SCUPPS. Consequently, the leave taken by faculty may go unreported, overstating the leave balances and allowing faculty to use more leave than allowed by the bargaining agreements. We tested leave records of 15 faculty for a two-year period. As a result, we found 43 instances where faculty were absent based on the Academic Affairs database but no leave usage was recorded in SCUPPS, and no leave slip was on file. We also found instances where the leave recorded in the Academic Affairs database did not agree with the leave recorded in SCUPPS.

It is the college's responsibility to ensure that all leave activity is recorded in the leave records and to ensure compliance with related bargaining agreement provisions.

Recommendations

- *Minneapolis Community and Technical College should develop a process to ensure that faculty and excluded administrators accurately and timely report leave activity, and that the leave taken is recorded in the accounting records.*

- *The college needs to determine the procedures it will use to ensure the accuracy of current leave balances for faculty and excluded administrators.*

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Chapter 6. Administrative Expenditures

Chapter Conclusions

During the audit period, the college did not properly authorize and record all administrative expenditures. In addition, the college exceeded contract and purchase order limits, allowed work outside of the contract period, and incurred obligations prior to the encumbrance of funds. Also, the college did not adequately monitor access to computer systems, as discussed in Finding 1 of Chapter 2. In fiscal year 2002, the college instituted process and control improvements over administrative expenditures but still needs to implement its plans to monitor compliance with its revised procedures.

Minneapolis Community and Technical College's 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 services, utilities, supplies, and equipment. Expenditures during fiscal year 2001 in these areas for all funds totaled approximately $9.7 million.

Table 6-1 provides a breakdown of these expenditures by category.

Table 6-1
Administrative Expenditures
Fiscal Year 2001

Expenditure Type	Amount
Purchased Services	$4,054,861
Consultant/Contract Services	1,679,074
Utilities	972,967
Supplies	2,283,743
Equipment	673,938
Total	$9,664,583

Source: MnSCU accounting system.

To purchase goods or services, college departments submit a paper or electronic purchase requisition to the purchasing agent of the college. The purchasing agent assists the department in complying with applicable contract and bidding requirements and assures the availability of funds in the appropriate cost center by initiating an encumbrance in the MnSCU Purchase Control System (PCS). Using PCS, the purchasing agent generates a purchase order and sends it to the vendor. For purchases of goods, the vendor sends the goods to the college's receiving department, where an employee verifies that the college received everything noted on the receiving documentation. The business office matches the invoice, purchase order, and receiving documentation. The business office then processes the payment on the MnSCU accounting system.

For purchases of services, the business office forwards the invoice to the recipient of the service who approves the invoice for payment and certifies receipt of the services. The business office then processes the payment on the MnSCU accounting system.

MnSCU policies require that institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000. Minneapolis Community and Technical College tracks equipment with a cost over $2,000 on MnSCU's equipment module. The college performed a physical inventory in May 2001.

Audit Objectives and Methodology

Our review of administrative expenditures focused on the following questions:

- Did the college's internal controls provide reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in the accounting system and complied with applicable legal provisions and management's authorization?

- Did the college comply with significant finance-related legal provisions and MnSCU policies concerning procurement and disbursement?

To answer these questions, 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 a sample of expenditures to determine if the college complied with applicable legal provisions concerning procurement and disbursements. In addition, we reviewed the college's process to record and track its fixed assets. Finally, we reviewed security access to determine who had the ability to initiate purchases and payments in MnSCU accounting and make changes in the equipment module.

Conclusions

During the audit period, the college did not properly authorize and record all administrative expenditures. In addition, the college exceeded contract and purchase order limits, allowed work outside of the contract period, incurred obligations prior to the encumbrance of funds, and paid some transactions late. Also, the college did not adequately monitor access to computer systems, as discussed in Finding 3 of Chapter 2. In fiscal year 2002, the college instituted process and control improvements over administrative expenditures but still needs to implement its plans to monitor compliance with its revised procedures.

5. PRIOR FINDING PARTIALLY IMPLEMENTED: The college did not ensure that administrative expenditures were properly authorized and supported by appropriate documentation and were in compliance with applicable policies and contract provisions.

We found numerous weaknesses with the college's controls over administrative expenditure transactions and exceptions to applicable legal provisions based on tests of transactions during the scope of the audit. We expanded our tests to audit transactions processed in fiscal year 2002 because the college implemented process and control improvements during that time period. We noted the following problems with administrative expenditures processed through June 30, 2001:

- For 14 of 52 purchases tested, the college incurred expenses prior to encumbering funds in the accounting system, resulting in noncompliance with statutory provisions and MnSCU board policies concerning procurement.

- In six instances, the contractor either performed work before a contract was fully executed or performed work outside of the contract period. In four instances, the total amount the college disbursed to a service provider exceeded the amount specified on the contract and/or purchase order.

- In 13 instances, the college either could not locate the requested documentation, which included purchase orders, requisitions, invoices, and evidence of bidding, or the responsible manager did not authorize the transaction. Without adequate documentation or proper authorization, the college is unable to show it complied with certain legal provisions or control procedures.

Our testing of fiscal year 2002 transactions identified some minor exceptions but demonstrated the college had improved its controls over administrative expenditures. The college has not yet implemented its plans to establish a monitoring process to ensure compliance with its updated procedures and controls over administrative expenditures.

Administrative expenditures, which totaled approximately $9.7 million in fiscal year 2001, represent a significant financial obligation to the college. Therefore, it is important that the college properly authorize and support its purchases to ensure funds are available before obligations are incurred, and to avoid contract disputes and improper payments.

Recommendation

- *Minneapolis Community and Technical College should implement its plans to monitor compliance with its revised procedures and controls over administrative expenditures to ensure that the college:*

  -- *does not incur obligations prior to ensuring that sufficient funds are available;*

  -- *adheres to contract terms and conditions and, if necessary, executes formal contract amendments; and*

  -- *properly authorizes purchases and retains documentation supporting financial transactions.*

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Status of Prior Audit Issues
As of June 14, 2002

Most Recent Audits

College Audit

Legislative Audit Report 00-44, issued in September 2000, covered material financial activities of the college for the period July 1, 1996, through December 31, 1999. The report contained fifteen findings. Minneapolis Community and Technical College fully resolved ten findings and partially resolved four findings. We did not determine the status of the federal financial aid finding since the program was not part of our audit scope. Although the college implemented a process to monitor system access as a result of a prior finding, we recommend improvements to the process in Finding 1 of our current report. We repeat portions of prior findings on control over bank activity, late posting of financial transactions in MnSCU accounting, and controls over operating expenditures in Findings 2, 3, and 5 of this report.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, and **Legislative Audit Report 00-11**, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the years ended June 30, 2000, and 1999, respectively. Report 01-15 did not include any findings related specifically to Minneapolis Community and Technical College. Report 00-11 cited the college for untimely bank account reconciliations and issues with Federal Work Study.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU's general purpose financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received an unqualified opinion for fiscal year 2001. As a part of the audit, the firm issued a management letter to MnSCU's Board of Trustees. Comment 5 cited Minneapolis Community and Technical College for untimely bank account reconciliations. This was resolved at the time of our audit.

State of Minnesota Audit Follow-Up Process

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

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MINNEAPOLIS
COMMUNITY & TECHNICAL
COLLEGE

July 29, 2002

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

Dear Mr. Nobles,

Thank you for the opportunity to respond to the findings of our recent audit for the two years ending June 30th, 2001. As mentioned in the exit conference held on July 18th, we appreciated the constructive process and open communications that your staff exhibited while on-site. Susan Rumpca should be especially commended for her professional and approachable manner, which allowed not only for your staff to determine financial and compliance findings, but also for our staff to learn how to continually improve our processes and procedures. Below find our responses to the team's findings:

1. **PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately monitor access to its computer systems.**

We concur with the finding. The institution currently conducts semi-annual reviews of system access to determine appropriate authorizations. In the first quarter of FY03, MCTC gained access to a report that identifies areas of incompatible access. By mid-FY03, this report along with other detective controls will be run quarterly by our Director of Business Affairs. Each occasion will be reviewed to determine whether the duties of the positions identified require such access, and if so, proper documentation will be developed to support the need.

2. **PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not fully reconcile and record select financial transactions in a timely manner.**

We concur with the finding. The Perkins bank account will be reconciled by FY02 year-end and the college will work with the MnSCU Office of the Chancellor to close out the account as information becomes available regarding the appropriate process to follow.

By the end of the first quarter of FY03 the MAPS to MNSCU reconciliation will be done monthly by MCTC staff. All entries and adjustments will be completed by the end of the following month. Payroll default exceptions are reviewed with the Human Resources department at the end of each pay period and adjustments are made.

3. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community and Technical College did not adequately monitor bank account collateral requirements.

We concur with the finding. Effective in the third quarter of FY02, the college discontinued its reliance on the bank to monitor this activity. Daily monitoring of the cash balance by MCTC staff was instituted during the fourth quarter of FY02. Each day the cash balance is verified on-line and entered into the daily spreadsheet; necessary collateral adjustments will be made via telephone with the same day of notice.

4. Minneapolis Community and Technical College did not adequately monitor and record excluded administrator and faculty leave activity.

We concur with the finding. In FY02 the college reconciled the leave balances for all unlimited faculty and made appropriate adjustments. During the first quarter of FY03 the college is self-auditing the FY02 Academic Affairs faculty database with the written records held in the Human Resources Department. By the second quarter of FY03 a new procedure will be developed and instituted by the Human Resources department to validate the monitoring of faculty absences. Additionally, the payroll department will confirm receipt of all excluded administrator timesheets within two weeks of the end of each pay period.

The college is also in the process of developing an institution-wide automated sick leave report, by the end of the first quarter of FY03, that will assist supervisory personnel in monitoring excessive absences.

5. PRIOR FINDING PARTIALLY IMPLEMENTED: The college did not ensure that administrative expenditures were properly authorized and supported by appropriate documentation and were in compliance with applicable policies and contract provisions.

We concur with the finding. The campus has strengthened the 16A letter procedures in that the responsible Vice Presidents must now review and sign each letter prior to it being logged in a database tracking the source of the error. Corrective action steps are being established and will be initiated for those seen consistently acting outside of the policy. FY02 showed significant progress in purchasing procedural development, along with procurement training and orientation for all budget responsibility managers. Training will continue to be held on a semi-annual basis and be integrated into the new employee orientation process of the College. Where feasible, we will be increasing the use of the PCS system to ensure only authorized signors are able to proceed with the purchase order process through encumbrance.

We want to thank the OLA audit staff that was part of the MCTC audit. We appreciate their efforts on our behalf and found them to be quite engaging.

Please contact me, or Vice-President Tammy McGee, at 612-359-1408 should you have questions regarding this response.

Sincerely,

/s/ Phillip L. Davis

Phillip L. Davis
President