OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Saint Paul College

July 1, 1999, through June 30, 2002

JUNE 5, 2003 **03-31**

Financial Audit Division

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Donovan Schwichtenberg, President
Saint Paul College

We have audited Saint Paul College for the period July 1, 1999, through June 30, 2002. Our audit scope included: financial management, tuition and fees, payroll, operating expenditures, and the bookstore and food service operations. Our scope did not include federal financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. We highlight the audit objectives and conclusions 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. 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 Saint Paul College complied with provisions of laws, regulations, contracts, and grants that are significant to 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 Saint Paul 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 June 5, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

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Claudia J. Gudvangen, CPA
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End of Fieldwork: February 7, 2003

Report Signed On: June 2, 2003

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Audit Participation

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

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Exit Conference

The following staff from the Office of the Chancellor and Saint Paul College participated in the exit conference held on May 22, 2003:

<u>Office of the Chancellor</u>:

Laura King	Vice Chancellor, Chief Financial Officer
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Paul Portz	Audit Coordinator

<u>Saint Paul College</u>:

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

Report Summary

Since our last audit report issued in May 2000, the Saint Paul College has either fully or partially resolved the six prior audit recommendations. Our audit scope was limited by the fact that the college inappropriately discarded the food service financial records for fiscal year 2000. Except for the effect of this scope limitation, we noted that overall the college complied with applicable legal provisions, and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded. Saint Paul College's budgetary controls provided reasonable assurance that it operated within its available financial resources. However, the college had certain internal control weaknesses that impacted the safeguarding of assets and the recording of financial activities in the accounting records.

Key Findings and Recommendations:

- The college did not resolve differences in the MnSCU to MAPS reconciliation and in the cash reconciliation. We recommended that the college resolve the differences in both reconciliations and complete the reconciliations on a timely basis. (Finding 1, page 7)

- Multiple users had incompatible security access. Ten employees had incompatible security groups, and several employees used a common log-on ID. We recommended that the college provide system access based upon job responsibilities and eliminate any incompatible access. (Finding 2, page 8)

- The college does not consistently perform employee evaluations. The college did not complete annual evaluations for classified employees. We recommended that the college evaluate classified employees annually. (Finding 10, page 19)

- The food service does not have adequate controls over receipt collections. The food service cash drawers had excessive overages and shortages, and the cashiers did not count cash at the end of a shift. The food service also did not review voids and did not properly account for certain coinage. We recommended that the college investigate overages and shortages and implement corrective procedures. We also recommended that the cashiers count their cash, have an independent review of voided transactions, and store change funds in the safe. (Finding 12, page 25)

Saint Paul College is part of the Minnesota State Colleges and Universities (MnSCU) system. This financial-related audit report focused on financial management, tuition and fees, payroll, administrative expenditures, and bookstore and food service operations for the period from July 1, 1999, through June 30, 2002. The college's response is included in the report.

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Chapter 1. Introduction

Saint Paul College was initially founded as a technical college in 1919 and is one of 34 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system, which began operation on July 1, 1995. On October 16, 2002, the Minnesota State Colleges and Universities Board of Trustees approved the renaming of St. Paul Technical College to Saint Paul College - a Community and Technical College. Saint Paul College is accredited by the Higher Learning Commission: a Commission of the North Central Association of Colleges and Schools. Dr. Donovan Schwichtenberg serves as the college president.

Saint Paul College offers 26 degree programs and over 70 diploma and certificate programs within the business, deaf education, health and service, technical, trade, industrial and general education divisions. The college grants Associate in Arts, Science, and Applied Science degrees. During fiscal year 2002, the college served 9,101 students representing a full-time enrollment of 2,992 students.

Saint Paul College funds its operations from three major sources: state appropriations allocated by the Office of the Chancellor, tuition receipts, and federal revenue. State appropriations and tuition and fees support General Fund activities. In fiscal year 1998, MnSCU allocated $10 million to Saint Paul College for a library addition and remodeling of the business and administrative offices. The project was completed in fiscal year 2001.

Saint Paul College is affiliated with the Saint Paul College Foundation. The foundation was established in 1986 to provide grants and scholarships as a needed addition to state and federal grant assistance programs. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintains its own financial records and accounts, which are audited by a CPA firm. The college maintains a formal agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants that benefit the educational mission of the college.

Saint Paul College acts as a fiscal agent for Minnesota Satellite and Technology (MnSAT), a state funded satellite telecommunications venture. Saint Paul College's responsibility includes collecting and recording receipts and maintaining accounts receivable information. It also provides other business services to MnSAT.

The college has a unique on-campus relationship with the Joint Apprentice Training Committee (JATC). The JATC is comprised of three local unions: the Glaziers, Pipefitters, and Plumbers. The college provides office space to the JATC and conducts specialized classes related to the needs of these unions. In turn, the JATC donates equipment, supplies and money, and recruits students to attend the Saint Paul College program. These classes result in the certification of graduating students and lead to employment as a member of one of the three unions.

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Chapter 2. Financial Management

Chapter Conclusions

Saint Paul 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. In addition, the college had an appropriate operating relationship with related organizations. We noted, however, that the college did not complete the MnSCU to MAPS monthly reconciliation and did not resolve differences in the cash reconciliation. The college also did not adequately administer and control access to its business systems. The college also did not assist MnSAT in reconciling its receipts. We also noted that the college did not adequately establish internal controls over facility rental and did not properly allocate indirect costs to customized training and enterprise operations.

For the items tested, the college complied with the applicable legal provisions regarding its local bank account.

Saint Paul College used the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaced with the state's accounting system, the Minnesota Accounting and Procurement System (MAPS), to generate warrants from the state treasury. The Office of the Chancellor also requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury.

Audit Objectives and Methodology

Our review of Saint Paul College's financial management focused on the following questions:

- Did the college's internal controls provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- For the items tested, did the college comply with applicable legal provisions regarding its local bank account?
- 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?

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- Did the college's internal controls provide reasonable assurance that it had an appropriate operating relationship with related organizations?

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

Budgetary Controls

MnSCU receives the majority of its funding for operations from General Fund appropriations. The Board of Trustees, acting through the Chancellor, is responsible for the allocation to individual colleges, including Saint Paul College. The allocation is formula based and is related to enrollment, past appropriations, and other factors. In addition, Saint Paul College, like other institutions, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

Saint Paul College established its General Fund budget based upon the Board of Trustees allocation and upon projected student enrollment. Saint Paul College has a college-wide budget committee, which includes membership from most bargaining groups and from students. The committee worked with management in developing budget recommendations and submitted them to the president, who retained full approval rights. Committee recommendations, for the budget years included within our audit scope, were reviewed and accepted by the president. The president, in turn, submitted the approved budget to the chancellor for adoption by the Board of Trustees. Once the board adopted the budget recommendation, the college allocated funding to the individual cost centers. The college made adjustments to the budget during the years as necessary.

During fiscal years 2000 to 2002, operating expenditures exceeded revenues by approximately $1 million. The major reason for the difference was enrollment growth without similar appropriation increases. The college funded the growth out of existing reserves. However, the reserve balance for Saint Paul College remained within five to seven percent of the operating expenditures as required by MnSCU board policy. As of June 30, 2002, Saint Paul College had an estimated seven percent budget reserve, or approximately $1,596,780. Colleges within MnSCU will be significantly affected by the state's budget deficit over the next biennium. The system office has authorized the colleges to use its reserve, if needed, to address the budgeted shortfall.

Financial Management

Saint Paul College made improvements in its financial management practices since our last audit. The college implemented three recommendations from our audit of the college for the period

July 1, 1996, through December 31, 1999, and partially implemented three other recommendations.

The college anticipates having to replace two key financial management staff during fiscal year 2004 because of impending retirements. These positions have major responsibility for the internal control environment.

Conclusions

Saint Paul 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. In addition, the college had an appropriate operating relationship with related organizations. We noted, however, that the college did not complete the MnSCU to MAPS monthly reconciliation and did not resolve differences in the cash reconciliation, as discussed in Finding 1. In addition, as explained in Finding 2, the college did not provide adequate access controls to its business systems. The college also did not assist MnSAT in reconciling its receipts, as discussed in Finding 3. The college did not adequately establish internal controls over facility rental receipts, as noted in Finding 4, or properly allocate indirect costs to customized training and enterprise operations, as discussed in Finding 5. For the items tested, the college complied with the applicable legal provisions regarding its local bank account.

1. The college has not resolved differences on the MnSCU to MAPS reconciliation and the reconciliation of cash on MnSCU to cash in the bank.

The college has not fully completed its reconciliation of account balances on the MnSCU accounting system to the MAPS accounting system. The college had reconciled the two accounting systems through fiscal year 2000. However, because of a change in personnel and difficulties with the process, the college did not complete the reconciliations for fiscal years 2001 and 2002. The college contracted with the MnSCU system office to complete the reconciliations. The system office attempted to reconcile fiscal year 2002 first because that year was still open on the accounting system. The system office completed the reconciliation on January 3, 2003. As part of its process, the system office identified significant differences that have to be resolved. These differences include over $375,000 for the cash balance, appropriation differences of $3,000, revenue differences of $58,000, and expenditure differences of $5,000. Some of these differences date back to the payroll system in place as of 1996. It is the college's responsibility to resolve these differences. The college also needs to reconcile fiscal year 2001. This reconciliation helps to assure the college that its financial activity is properly recorded on MnSCU and on MAPS. Completing the reconciliation monthly ensures that the college resolves differences in a timely manner.

The college has also not resolved some differences on the local bank reconciliation dating back to fiscal year 2000. There are six items on the reconciliation that should be cleared up or written off. These items ranged from $10 to $2,300.

Recommendations

- *The college should resolve the differences identified in the MnSCU to MAPS reconciliation for fiscal year 2002. It should also complete the reconciliation for fiscal year 2001. The college should complete this reconciliation on a monthly basis.*

- *The college should also resolve the differences identified in the reconciliation of cash on MnSCU to cash in the bank.*

2. PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College did not adequately control access of certain employees to its accounting systems.

Saint Paul College did not adequately administer and control access to the MnSCU accounting system. The college has primary authority and responsibility to ensure employee access to its business systems is based upon job responsibilities. Without the proper security controls, the college is at risk for possible unauthorized or fraudulent transactions to occur. The college has resolved issues related to system office access. However, our review of the security administration over college computerized business systems disclosed several weaknesses that continue to exist at the college:

- User rights to the accounting and payroll systems for four former employees have not been eliminated.

- Staff in the cashiers' office periodically shared log-on ID's because of the time and effort necessary to reboot the system. The cashiers did not use their individual user IDs when entering tuition and fee receipts on the Student Information System.

- We noted ten business office employees had incompatible access to the accounts receivable system. The employees had the ability to handle waivers, collections, accounts receivable adjustments, and deferments. These users have the potential to inappropriately modify tuition and registration charges and also improperly adjust accounts receivable balances and waivers. The college indicated that these individuals needed access to provide sufficient back up for its operations. Where incompatible access is necessary, the college should have someone independent of the cashiering function review for inappropriate transactions.

Recommendation

- *The college should periodically review system access, limit access to staff requiring it to complete their job responsibilities, and eliminate any unnecessary incompatible access.*

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3. PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College needs to improve controls over Minnesota Satellite and Technology (MnSAT) financial activities.

MnSAT did not verify the proper recording of receipts and was unable to determine if it collected all earned revenues. In our prior audit, we noted that the college needed to ensure that MnSAT receipts were properly recorded, determine the amount of aged receivables, and enter receipts under a correct customer identification code. The college now enters the correct customer identification code, but has not resolved the verification of MnSAT receipts or determined the amount of aged receivables. Saint Paul College acted as a fiscal agent for MnSAT during the audit period. Under the operating arrangement, MnSAT was responsible for its billings, while the college recorded and deposited the receipts. However, both MnSAT and Saint Paul College had problems performing their responsibilities, including:

- MnSAT recorded invoice numbers off of its accounting system rather than using the Integrated Student Record System (ISRS) invoice numbers. This made it difficult and time-consuming for the college business office to match payments to invoices. Based upon discussions with the two parties, MnSAT has agreed to use ISRS invoice numbers in the future, thereby reducing the business office's workload.

- MnSAT was unable to verify that all of its receipts were properly recorded in its account and was unable to verify the status of its outstanding accounts receivable. The college will be setting up MnSAT access to certain ISRS revenue and accounts receivable screens. These screens will allow MnSAT to review its receipts and to determine what accounts are outstanding.

- The college prepared an accounts receivable report, but the report did not age or properly date the receivables. The college has since developed a new accounts receivable report that dates and ages the receivables. MnSAT will be able to base its collection efforts on the aged accounts receivable report.

The cooperation of the college and MnSAT should make it easier for the college to complete its financial responsibilities. MnSAT will now be able to verify its receipts and analyze its accounts receivable balances.

Recommendations

- *MnSAT should use ISRS invoice numbers to allow the college to match up the payments with invoices.*

- *The college should set up access capability for MnSAT to view receipts and outstanding accounts receivable.*

- *The college should provide an aged accounts receivable report periodically.*

4. The college did not segregate duties over facility rental receipts.

Saint Paul College did not maintain adequate controls over the processing of facility rental receipts. The college rents out its facilities to private firms and local and state governmental entities. It has established rules and regulations and a schedule of charges for the rental of its facilities. Earnings for the three years ending June 30, 2002, amounted to approximately $868,000.

In reviewing the process for billing and collecting facility rental income, we noted that the college did not separate its billing and cashiering responsibilities. The same individual issued the billings and collected payments. This lack of separation of duties provides an opportunity for the individual to bill an organization and divert the receipts. The college is reviewing the possibility of having receipts mailed directly to the business office.

Recommendation

- *The college should require that facility rental receipts be sent directly to the business office.*

5. The college did not calculate indirect costs allocated to certain cost centers according to board procedure.

The college calculated indirect costs charged to the bookstore, food service, MnSAT, and customized training by applying a standard rate against receipts. The calculation of indirect costs based upon receipts does not relate to specific costs incurred by the college and does not comply with board policies. For instance, the college charged customized training approximately $84,000 in indirect costs for fiscal year 2002 by multiplying its receipts times a rate of seven percent. A similar process is applied to indirect cost for MnSAT and to the food service and bookstore operations. Board policy provides that indirect costs must be allocated using a rational and consistent method that approximates the activities proportional benefit derived.

Board procedure 7.3.4 includes cost allocation guidelines to assist colleges and universities in the allocation of direct and indirect costs. These guidelines provide suggestions on the most commonly used methods for allocating costs. Some examples include the allocation of human resources by employee count and the allocation of utility costs by percentage of square foot. The college needs to identify indirect costs and to develop a reasonable method of allocating these costs to the appropriate cost centers.

Recommendation

- *The college should identify what indirect costs are incurred as part of its operation. The college should then allocate these costs based upon a systematic procedure in compliance with board policy.*

Chapter 3. Tuition and Fees

Chapter Conclusions

Saint Paul College's internal controls provided reasonable assurance that overall revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not verify the proper recording of customized training receipts. The college did not provide independent reviews over the process of backdating registrations and the issuance of waivers. The college did not pursue collection of overdue accounts. The college also did not adequately control access of certain business office staff to its accounting system, as discussed in Chapter 2, Finding 2.

For the items tested, Saint Paul College complied with the significant finance-related legal provisions for tuition and fees.

Saint Paul College currently offers credit classes, customized training, and continuing education credit and non-credit classes. Table 3-1 shows the per credit tuition rate for the three fiscal years ended June 30, 2002.

Table 3-1
Tuition Rates
Fiscal Years 2000-2002

Classification:	2000	2001	2002
Resident Rate	$ 68.25	$ 71.80	$ 77.50
Nonresident Rate	$136.48	$143.64	$155.00

Source: MnSCU system board policies as of August 1999, 2000, and 2001.

Tuition and fee revenues collected for the three fiscal years ended June 30, 2002, totaled approximately $23,323,000.

Audit Objectives and Methodology

Our review of Saint Paul College's tuition and fee revenues focused on the following questions:

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

- For the items tested, did the college comply with the significant finance-related legal provisions concerning tuition and fees?

To answer these questions, we interviewed college employees to gain an understanding of the controls over tuition and fees. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected earned revenue, and properly recorded revenue transactions in MnSCU accounting. We also reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions.

Accounts Receivable

Saint Paul College uses the Integrated Student Record System (ISRS) to record accounts receivable activity. This system contains various student data and registration modules that share common data through various interfaces.

This ISRS module was operational throughout our audit scope, except it was not used for the college's customized training program, Corporate Training and Assessment, until July 1, 2001. The customized training office processes the invoices, while the business office collects the receipts.

ISRS accumulates all student charges from various sources. When students pay their bills at the cashier's office, the cashier enters the payments into the system. The system automatically applies the money to the outstanding balances in a specified priority order.

For students who don't electronically register for classes, such as walk-in and mail-in students, the college requires them to pay tuition and fees at the time of registration. For students registering electronically, holds are placed on student accounts if charges are not paid by the deadline. The holds prevent further registration until the charges are paid. There are specific circumstances such as third-party payments or financial aid disbursements that provide for an approved deferment. The registrar's office may also provide support for releasing holds. The college pursued past due accounts receivable by periodically mailing bills to students. If a student did not voluntarily pay, the college referred the account to the Minnesota Collection Enterprise (MCE), the state's centralized collection function. MCE pursues collection of the outstanding balance until it is paid or determined uncollectible. MCE returns uncollectible accounts to the college.

Conclusions

Saint Paul College's internal controls provided reasonable assurance that overall revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, in Finding 6 we found that the college did not verify the proper recording of customized training receipts. In addition, the college did not provide independent reviews over the process of backdating registrations and the issuance of waivers, as discussed in Finding 7. The college did not pursue collection of overdue accounts, as explained in Finding 8. The college also did not adequately control access of certain business office staff to its accounting system, as discussed in Chapter 2, Finding 2. For the items tested, Saint Paul College complied with the significant finance-related legal provisions for tuition and fees.

6. PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College needs to improve controls over customized training (Corporate Training and Assessment) receipts.

The Corporate Training and Assessment (CTA) office did not ensure that receipts were properly deposited and recorded on MnSCU accounting. Since the previous audit report issued in May 2000, the college has resolved prior issues relating to the timely deposit of receipts and the delegation of authority for CTA to enter into contracts. However, the college did not establish processes to ensure receipts were properly recorded and that contracts with instructors were completed prior to the beginning of classes.

CTA did not verify the recording of its receipts in MnSCU accounting. CTA receipts amounted to approximately $2.3 million for the three years ending June 30, 2002. CTA has identified differences between receipts recorded on MnSCU accounting and amounts on its accounts receivable records. For instance, there is approximately a $35,000 difference as of January 2003 between the ISRS and CTA accounts receivable records. For the CTA to operate effectively and avoid duplicate billings, it needs to ensure that the receipts are properly recorded to the correct cost centers and accurately reflected on the accounts receivable records. Based upon our discussion with business office staff, the business office will be providing view-only ISRS receipt and accounts receivable screens to CTA employees. This will allow the CTA office to verify that receipts are properly recorded to the correct account and enable it to reconcile the accounts receivable records.

The college also provided instructional services before contracts with the vendors had been fully signed and executed. In 7 out of 50 files reviewed, the college initiated customized training income contracts to provide instructional services without having all parties sign the contracts prior to the beginning of class.

Recommendations

- *The CTA office should use ISRS screens to verify that receipts are posted to the correct account and to reconcile accounts receivable balances.*

- *The college should ensure that instructional services are not provided until contracts with the vendors are fully executed.*

7. The college did not perform an independent review of backdated registrations and did not ensure that waivers were properly approved and valid.

The college did not perform an independent review of backdated registrations entered into the system to ensure that they were valid. The college has not developed any specific criteria to determine when the cancellation of registration records should be backdated or recorded as waivers. In addition, the college did not ensure that waivers were properly approved and valid.

The college has not developed a process to independently review backdated registrations. Backdating registrations occurs mainly as a result of the student's request to change classes or to eliminate the registration for classes that have not started. During our audit period, the college backdated a total of 13,080 credit cancellations totaling $938,000. The accounts receivable application on ISRS allows staff in the registration office to eliminate a student's tuition and fee charges by backdating registration cancellation reports. We noted that six employees in the registration office had the ability to process backdated registrations and thereby eliminate a student's obligations. Improper backdating of registrations could result in a loss of revenue to the college. Failure to monitor these transactions increases the risk of errors or irregularities occurring and going undetected.

The college did not establish controls to ensure that waivers were properly approved and valid. The college did not provide an independent review of waivers processed by the cashiers. Waivers also reduce the students' obligation and results in a reduction of tuition and fee revenue to the college. MnSCU Board Policy 5.12 allows the college president to waive amounts due to the college for reasons such as medical conditions, college errors, and benefits arising from employee bargaining agreements. The college processed approximately $160,000 in waivers during fiscal year 2002. The ability of cashiers to process waivers without any review from the business office increases the risk of undetected errors or irregularities to occur.

The college also did not delegate authority for the registrar to approve waivers. The waiver procedures require a final signature by the vice president of academic affairs before issuing a waiver. However, the registrar signed all of the waivers in lieu of the vice president during all three fiscal years ended June 30, 2002. The college neglected to complete the delegation of authority for the registrar to approve waivers. As a result of our audit, the college in January 2003 completed the delegation of authority to the registrar.

Recommendations

- *Someone independent of the responsibility for backdating registration transactions should review the backdated transactions for propriety.*
- *The college should establish criteria for backdating transactions and issuing waivers.*
- *The college should have someone independent of the cashiering function review the propriety of waivers.*
- *The college should ensure that the registrar approve all waivers.*

8. The college did not adequately pursue collection of overdue third party accounts receivable.

The college did not adequately pursue collection of third party accounts receivable. Third party entities consist of private firms, non-profit organizations, or government entities that authorize the college to bill them for a student's tuition, fees, and books. The third party accounts receivable balance totaled approximately $605,000 as of June 30, 2002. Some open accounts dated back to 1999. The college initially billed the vendors, but did not pursue collection of unpaid accounts and did not develop a thorough listing of these receivables until November 2002. The college is now making an effort to collect on these overdue accounts. Following the preparation of an accounts receivable listing, the college in November sent out billing letters and collected approximately $200,000. The college needs to further pursue collection on the remaining overdue accounts receivable balances.

We also noted that the college extended services to vendors who have not paid for several consecutive years. For instance, one vendor did not provide payments on obligations totaling $65,000 for three successive years. The college increases its risk of nonpayment by providing services during the current year without first collecting the amounts due for previous years. The college should more vigorously pursue collection on overdue accounts and ensure that the vendors make payments on prior balances before extending new services to these vendors.

Recommendations

- *The college should pursue collection on all overdue accounts. The college should also maintain a current accounts receivable listing to assist in the collection efforts.*

- *The college should require payment on prior obligations before extending services to vendors in the current year.*

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Chapter 4. Payroll

Chapter Conclusions

Saint Paul College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning payroll. However, the college did not independently review the biweekly payroll and leave input into the state's payroll system and did not complete classified evaluations in a timely manner.

Saint Paul College, in the 2001-2002 academic year, employed 517 employees consisting of 96 full-time faculty; 19 part-time faculty, 277 adjunct faculty, 52 full-time professional/supervisory faculty; and 73 full-time support staff. Payroll expenditures during the audit period were approximately $52 million and represented about 60 percent of the college's expenditures. The following organizations represent the college's employees:

- The American Federation of State, County, and Municipal Employees
- The Minnesota Association of Professional Employees
- The Middle Management Association
- Minnesota State College Faculty
- The Commissioner's Plan
- The Excluded Administrators Plan
- The Managerial Plan

Saint Paul College used the State Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. SEMA4 contained pay rate information and calculated employee biweekly payments.

The college had separate human resources and payroll departments. The human resources department updated SCUPPS appointments and salaries. The payroll office collected employee timesheets for update of SEMA4 mass time entry and was responsible for ensuring proper recording of payroll expenditures in MnSCU accounting. The business office reconciled SCUPPS to SEMA4 on a periodic basis.

Audit Objectives and Methodology

Our review of Saint Paul College's payroll expenditures focused on the following questions:

Saint Paul College

- Did the 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 the college comply with the significant finance-related legal provisions concerning payroll?

To answer these questions, we obtained an understanding of the internal control structure over the payroll and personnel process. We made inquiries of college staff to gain an understanding of the personnel and payroll systems used by the college. We observed the procedures used to process and reconcile payroll transactions. We reviewed the computer system security clearances for payroll and human resources personnel. We analyzed payroll expenditures to determine the proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to various bargaining agreement provisions. We tested student payroll to determine if it was authorized and accurately recorded in the system. Finally, we reviewed and tested employee leave balances maintained by the college.

Conclusions

Saint Paul College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning payroll. However, as discussed in Finding 9, the college did not independently review the biweekly payroll and leave input into the state's payroll system. Also, the college did not timely complete evaluations, as explained in Finding 10.

9. Saint Paul College did not adequately separate incompatible payroll duties.

Saint Paul College did not independently verify that payroll and leave accrual transactions were properly entered into the state's payroll system. The payroll clerk who entered the timesheet hours into the state's payroll system during mass time entry also verified the accuracy of the posting. This responsibility increases the risk that an inaccurate posting of payroll and leave hours could occur and go undetected. An independent review of the payroll register report would ensure that payroll errors do not occur or are detected and corrected in a timely manner.

Recommendation

- *The college should separate incompatible payroll duties, including establishing an independent verification of payroll and leave hours reported on timesheets to the hours processed in the state's payroll system.*

10. Saint Paul College did not timely complete classified employee evaluations.

Saint Paul College did not provide timely evaluations of its classified employees. Seven out of the nine classified employees we tested did not have recent evaluations. Four employees had no evaluations on file, one employee did not have an evaluation since 1998, one in 1999, and another employee's last evaluation was in 2001. We noted that some compensation plans require an annual evaluation, while others may require that the state base employee salary increases on satisfactory progress as shown on their evaluations.

Recommendation

- *The college should develop a policy that requires supervisors to complete evaluations of classified employees on an annual basis.*

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Chapter 5. Operating Expenditures

Chapter Conclusions

Saint Paul College's internal controls provided reasonable assurance that operating expenditures were accurately recorded in the accounting records, adequately safeguarded, 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 operating expenditures.

Saint Paul College spent approximately $30 million during the three fiscal years ending June 30, 2002, on operating expenditures, supplies, and equipment. Operating expenditures included payments for utilities, supplies, and consultant/contract services. Saint Paul College staff and faculty purchase equipment, materials, supplies, and services necessary to complete the educational mission of the institution. MnSCU Board Policy Chapter 5.14, Procurement and Contracts, governs the purchasing function for the college.

The college employs a buyer to handle the purchasing function, a central receiving clerk to receive the purchases, and a business office employee to handle the disbursement of funds. This assignment of responsibilities provides a good separation of duties for the procurement function. The buyer has explicit authorization from the college president to conduct the purchasing function on behalf of the school.

MnSCU policy requires at least two competitive bids for purchases over $10,000 and purchases greater than $1,500 require staff to complete a requisition form used to encumber funds. Purchases over $1,500 are normally obtained through the buyer. The buyer acquires competitive bids and completes a purchase order to place an order with the selected vendor. Equipment purchases require the additional approval of the appropriate college dean, vice president, or president. Purchase orders are used for purchases under $1,500. Field purchase orders were used to accommodate immediate needs, where the normal requisition process would significantly delay the college's daily operations. These immediate needs may include supplies or repairs.

During the audit, we noted that the college did not record the proper occurrence dates in fiscal year 2000 when recording transactions in the accounting system. However, the college made significant improvements in fiscal years 2001 and 2002. The college now records the proper occurrence date for these transactions

Audit Objectives and Methodology

Our review of Saint Paul College's operating expenditures focused on the following questions:

Saint Paul College

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

- For the items tested, did the college comply with the significant finance-related legal provisions concerning operating expenditures?

To address these questions, we obtained an understanding of the internal control structure over the expenditure process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile expenditure transactions. We reviewed controls and tested transactions related to the acquisition of equipment, materials, supplies, and services. We determined whether the college properly procured and documented disbursement transactions, paid the correct amount, recorded transactions in MnSCU accounting, and complied with applicable MnSCU policies.

Conclusions

Saint Paul College's internal controls provided reasonable assurance that its operating expenditures were accurately recorded in the accounting records, adequately safeguarded, 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 operating expenditures.

Chapter 6. Bookstore and Food Service Operations

Chapter Conclusions

Saint Paul College's internal controls provided reasonable assurance that the bookstore's financial activities were properly recorded in the accounting records in compliance with applicable legal provisions and management's authorization. However, the bookstore did not perform an independent review of cashier voided receipt transactions.

Because the college had inappropriately discarded its financial records for its food service activities for fiscal year 2000, we were unable to review the supporting records for fiscal year 2000 and could not verify the accuracy of the amounts recorded on the MnSCU accounting system (see Chapter 2, Finding 6). In addition, the college did not have adequate controls over the collection of food service receipts.

For the items tested, the college complied with the significant finance-related legal provisions concerning the bookstore and food service activities.

Saint Paul College operates its bookstore and food service activities within the Enterprise Fund. The financial activity for each of these operations for the year ended June 30, 2002, is shown in Table 6-1.

Table 6-1
Bookstore and Cafeteria Financial Activity
Fiscal Year 2002

	Bookstore	Food Service
Sales and Services	$1,110,396	$503,609
Cost of Goods Sold	(837,010)	(239,598)
Gross Margin	$ 273,386	$264,011
Operating Expenses		
Salaries	$ 130,697	$257,718
Purchased Services	9,511	3,171
Indirect Costs	57,195	26,059
Depreciation	2,692	758
Other	14,017	9,257
Total Operating Expenses	$ 214,112	$296,963
Income (Loss) from Operations	$ 59,274	($32,952)

Source: MnSCU Accounting System.

Saint Paul College

Bookstore

The Saint Paul College bookstore offers textbooks and a wide range of school and personal supplies for sale. The bookstore had profits totaling $51,168 over the past four years. Students have the option of paying by cash, check, credit card, or charges to financial aid. The bookstore manager supervises one full-time employee, as well as two part-time employees for the evening hours. The bookstore uses a point of sale computer system called Nebraska Book for recording sales. Bookstore employees perform a physical inventory count once each year, and the business office adjusts the bookstore inventory in MnSCU accounting to reflect the actual inventory on hand.

Food Service

The Saint Paul College food service area provides meals, snacks, and beverages to college students, staff, and visitors. The cafeteria also offers catering services to the public. For the five years prior to fiscal year 2003, the cafeteria sustained cumulative losses totaling $131,367. The college has worked during the past year to make the food service a profitable operation. As of February 4, 2003, the cafeteria had a net profit of nearly $41,000. Food service employs two full-time and nine part-time individuals. Generally, cash is the only method of payment accepted, although in some instances, invoices are sent to customers, or a cost center is charged internally. Both the food service and the bookstore use a courier to deposit receipts daily.

Audit Objectives and Methodology

Our review of the Saint Paul College's bookstore and food service operations focused on the following questions:

- Did the college's internal controls provide reasonable assurance that bookstore and food service receipts and expenditures 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 with the significant finance-related legal provisions concerning bookstore and food service activities?

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

Conclusions

Saint Paul College's internal controls provided reasonable assurance that the bookstore's financial activities were properly recorded in the accounting records in compliance with applicable legal provisions and management's authorization. However, as discussed in

Finding 11, the bookstore did not perform an independent review of cashier voided receipt transactions. Because the college had inappropriately discarded its financial records for its food service activities for fiscal year 2000, we were unable to review the supporting records for fiscal year 2000 and could not verify the accuracy of the amounts recorded on the MnSCU accounting system (see Chapter 2, Finding 6). In addition, as discussed in Finding 12, the college did not have adequate controls over the collection of food service receipts. For the items tested, the college complied with the significant finance-related legal provisions concerning the bookstore and food service activities.

11. The bookstore did not perform an independent review of voided receipt transactions.

There was no review and approval of the bookstore cashiers' voided receipt transactions. While void transactions were shown on the bookstore's daily reports, no one reviewed the validity of these high-risk transactions. For example, we found no review or approval for $774 of voided transactions for the first two weeks of the spring 2003 semester. Voided transactions are sensitive transactions because they represent decreases to cash collections. The absence of an independent review over voided transactions increases the risk that errors or irregularities could occur and not be detected.

Recommendation

- *The college bookstore should develop procedures that require review and approval of all voided transactions.*

12. The food service operation did not have adequate controls over its cashiering function.

The Saint Paul College did not resolve cash shortages and overages in its food service operation. It also did not properly assign responsibility for counting cash drawers and did not address voided receipts. The food service closes out all four registers daily and prints out a cash register sales tape.

During the audit period and continuing into fiscal year 2003, we noted that the food service's cashiers had excessive daily over and under amounts in the cash drawers. The differences are inconsistent between days, and some cashiers are over and under more frequently than others. We did an analysis of the over and short amounts for two months in fiscal year 2003. Four of the five cashiers had a variance of at least $50 for one day during the two months. One cashier was over by $295 one month and short $67 the next month. The food service supervisor believes this occurs because the cashiers don't always enter all sales into the cash register. However, this does not address the shortage amounts. Table 6-2 provides a listing of some shortages or overages noted during fiscal year 2003.

Table 6-2
Selected Cafeteria Receipt Overages and Shortages
Fiscal Year 2003

Date	Cashier Number	Register Tape	Register Cash	Total (Short) Over	Percentage of Register Sales
11/13/2002	1	878.10	836.90	(41.20)	(4.69)%
11/12/2002	4	266.20	207.40	(58.80)	(22.00)%
11/6/2002	3	281.45	314.00	32.55	11.57%
10/28/2002	1	891.00	985.75	94.75	10.63%
10/28/2002	3	677.50	627.20	(50.30)	(7.42)%
10/11/2002	1	681.80	631.45	(50.35)	(7.38)%
10/1/2002	5	737.70	667.55	(70.15)	(9.51)%

Source: Cafeteria manager's notebook to record overages and shortages for fiscal year 2003.

The food service manager did not pursue the reasons for differences between the amount of cash in the registers and receipts recorded on the cash register sales tape. The food service supervisor has to assume ultimate responsibility for the differences. He needs to investigate the cause for the differences and to make corrections in the cashier's procedures to ensure overages and shortages are minimized.

The individual cashiers were not responsible for counting the cash in their register drawer at the end of their shift. The food service supervisor collects all the cash drawers and completes the cash reconciliation to the register tapes. He identifies the differences for each cashier. The current procedure does not allow the individual cashiers to verify and explain the overages and shortages. Cashiers should count the cash in their drawer after their shift. This process would allow the cashiers to verify overages and shortages and to explain these differences.

The food service also has no policy for a review of the cashiers' voids. Cashiers can issue a void to reduce or eliminate the payment by the customers. This void is recorded on the cash register tape. However, without any review, there is not assurance that the voids are valid. A review of the voids by another employee would reduce the risk of errors or irregularities.

The food service does not properly account for miscellaneous coins. The food service supervisor pulls out all pennies and other small coins in excess of the register coin totals and keeps them in containers on a shelf. When the containers became full, he exchanged the coins for dollar bills. The coins served as a reserve for change purposes. However, there is no accountability for these coins, and they are susceptible to theft or misuse. The food service should maintain records of these coins, and they should be kept in the safe.

Recommendations

- *The food service manager should have the cashiers count their cash drawers before submitting them to their supervisor.*
- *The food service supervisor should investigate the cause of the shortages and overages and implement corrective procedures.*

- *The food service manager should have an independent employee approve voided transactions.*

- *The food service supervisor should account for all money not deposited, and any overages should be kept in the safe.*

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Status of Prior Audit Issues
As of February 7, 2003

Most Recent Audits

College Audit

Legislative Audit Report 00-22, issued in May 2000, covered the period July 1, 1996, through December 31, 1999. The audit report cited six findings. As of this date, the college has resolved three findings. The remaining issues relating to access controls, MnSAT activities, and controls over customized training receipts were partially implemented and are restated as Findings 2, 3, and 8 in our current report.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touché, LLP, an independent CPA firm, to audit the MnSCU's basic financial statements and to report on its internal controls and compliance over its major federal programs. MnSCU received an unqualified opinion for fiscal years 2001 and 2002. As part of the audit, the firm issues a management letter to MnSCU's Board of Trustees. The letters contained 13 comments and 7 comments, respectively, on accounting, administrative, and operating matters for fiscal years 2001 and 2002. The management letters did not specifically mention Saint Paul College.

State of Minnesota Audit Follow-Up Process

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

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Saint Paul College
A Community & Technical College

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May 29, 2003

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent audit findings for the three year period through June 30, 2002 concerning financial activities at our College. We appreciate the auditor finding that overall the College complied with applicable legal provisions that our internal controls provided reasonable assurance that assets were safeguarded, and that our financial activities were properly recorded.

We are in general agreement with the individual findings and recommendations, with reservations as noted in the attached formal response.

Sincerely,

/s/ Donovan Schwichtenberg

Donovan Schwichtenberg
President

enclosure

RESPONSE TO OLA FINDINGS/RECOMMENDATIONS
SAINT PAUL COLLEGE
MAY, 2003

AUDIT FINDING #1- "**The college has not resolved differences on the MNSCU to MAPS reconciliation and the reconciliation of cash on MNSCU to cash in the bank**."

The College agrees with the audit finding and recommendation. We have provided a listing of the un-reconciled items to MNSCU system office staff, and we believe we have reconciled these differences. The $375,000 item relates to payroll entries early in MNSCU systems development, within the various appropriations. (correcting entries made at year end not timely entered in both systems.). MNSCU System Office staff are advising us how to clear this permanently as a reconciling entry. The College no longer allows re-costing of payroll at year-end, which caused the original reconciliation problem in 1996-7. We agree that monthly MAPS/MNSCU reconciliations are necessary so long as the Colleges are required to use both state accounting systems. We believe dual systems by definition require additional workload at the Colleges, at a time that they are facing administrative staff reductions. We believe MNSCU should advocate eventual migration to a single accounting system to reduce this burden.

AUDIT FINDING #2- "PRIOR FINDING PARTIALLY RESOLVED: **Saint Paul College did not adequately control access of certain employees to its accounting systems.**

We are in agreement with the finding, and recommendations. User rights for the former employees have been eliminated since the audit took place. The College recognizes concerns relating to shared computer I.D. log-ons, and is ending the practice. We are taking steps to eliminate incompatible computer access, but note reduced staffing levels (resulting from funding reductions) often necessitate overlapping job duties and create separation issues.

AUDIT FINDING #3- "PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College needs to improve controls over Minnesota Satellite and Technology (MnSat) financial activities."

The College agrees with the finding and recommendation. As the audit notes, the College has, for a period of years, acted as fiscal agent for the MNSAT organization, on a fee-for service basis. MNSAT is not, strictly speaking, a part of the educational mission of the College, but does require substantial labor-intensive accounting/business services which are not completely compatible with existing MNSCU finance systems, and reporting capabilities. We are reviewing whether or not the College, at present staffing levels, can provide the necessary level of accounting review and supervision, locally designed reporting capabilities, and reconciliation activities connected with the role of fiscal agency for MNSAT. While we continue as fiscal agent, the specific audit recommendations will be followed.

AUDIT FINDING #4- "The college did not segregate duties over facility rental receipts."

The College agrees with the finding and recommendation and has taken steps to assure complete compliance.

AUDIT FINDING #5- "The college did not calculate indirect costs allocated to certain cost centers according to board procedure."

The College agrees with the finding and recommendation, and notes that the referenced procedure was not adopted until well into the time period under audit review. The College did in fact charge indirect cost , using an alternative costing method, as the audit states. That accounting method had been held acceptable under previous audit reviews. The College has taken steps to assure future compliance with the referenced procedure, in accordance with the audit finding..

AUDIT FINDING #6- "PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College needs to improve controls over customized training (Corporate Training and Assessment) receipts."

The College agrees with the finding and recommendations**.** The College is in the process of providing the recommended "view-only" ISRS and accounts receivable screen access, to enable CTA staff to perform required reconciliation and invoicing activities. We note that such access until recently was not even available within the customized training ISRS module, and that allowing full access to CTA employees would have created separation of duties and computer security issues for the college. The College is taking steps to assure that services are not provided under customized training contracts prior to execution of contracts.

AUDIT FINDING #7- "The college did not perform an independent review of backdated registrations and did not ensure that waivers were properly approved and valid."

The College agrees with the finding and recommendations. Since the audit, the College has developed the required criteria and procedures (February 2003), which include the administrative review. Two individuals were authorized to review waivers and the waivers were reviewed. Delegation documents have been prepared which authorize future waiver approval by either the Registrar or Vice President, Academic Affairs and Student Services.

AUDIT FINDING #8- The college did not adequately pursue collection of overdue third party accounts receivable."

The College believes it has pursued collection of overdue third party accounts receivable consistent with limitations imposed by existing staffing levels and MNSCU receivables system design. The MNSCU receivables systems is a component of the ISRS student system, and the College has many other invoicing and receivables responsibilities which do not closely relate to student billings. The College has, since the time of the audit, developed locally designed report capabilities (accounts receivable aging, individualized invoices, and vendor statements are examples) to accommodate our customer needs and what we believe are weaknesses in the MNSCU receivables systems. We would also point out that a substantial portion of the receivable issues in this finding relate to the MNSAT organization. We are reviewing our future role as fiscal agent, as described in our response to OLA Finding #3 above.

AUDIT FINDING #9- "Saint Paul College did not adequately separate incompatible payroll duties."

The College believes that it has had, and continues to have, an independent payroll review and verification by a supervisory employee (College Business Manager)of all payroll and leave accrual entries made by the payroll clerk. The College will review all payroll duties consistent with the audit recommendation.

AUDIT FINDING #10- "Saint Paul College did not timely complete classified employee evaluations."

The College agrees with the finding and recommendation, and a plan has been developed to assure all evaluations are completed by August, 2003.

AUDIT FINDING #11- "The Bookstore did not perform an independent review of voided receipt transactions."

The College agrees with the desirability of such reviews, within the limitations of staffing availability and customer service concerns. As described, most such voided transactions take place during peak activity periods relating to class openings. Accounting supervisory staff are already more than fully occupied during these times, but we are taking steps to address the auditor concerns. We note that no actual instances of actual, or suspected, transaction impropriety were found by the auditors in their findings.

AUDIT FINDING #12- "The food service operation did not have adequate controls over its cashiering function"

The College is in agreement with the findings and recommendations. The College points out that it is one of the few Colleges running its own food service operations, with its own employees, and that that operation has been financially successful for a period of years. In other words, these operations have not required subsidy from either state appropriations or tuition dollars, which was not contested by the auditors. The College has exercised continuing financial management oversight of cafeteria operations to achieve that operating result. Nonetheless, the College has, since the audit field work changed certain practices and procedures in accordance with the specific recommendations to achieve the suggested cashiering controls.