



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

South Central Technical College
July 1, 1999, through June 30, 2002



Financial Audit Division

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

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

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

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

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Keith Stover, President
South Central Technical College

We have audited South Central Technical College for the period July 1, 1999, through June 30, 2002. Our audit scope included the areas of financial management, tuition and fees, employee payroll, administrative and resale expenditures, and bookstore revenues. 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 South Central Technical 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 South Central Technical College, and 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 19, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 2003

Report Signed On: June 12, 2003

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Audit Participation

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

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Report Summary

Conclusions

South Central Technical College's internal controls provided reasonable assurance that it adequately safeguarded assets, accurately recorded transactions in the accounting records, and complied with applicable legal provisions and management's authorizations.

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

South Central Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. This financial-related audit report focused on financial management, tuition and fees, employee payroll, administrative and resale expenditures, and bookstore revenues for the period July 1, 1999, through June 30, 2002.

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Chapter 1. Introduction

South Central Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. The college, established in 1946, was the state's first technical college. South Central Technical College is a two-year college whose mission is to provide quality higher education for employment and continuous learning. The college's two campuses are located in North Mankato and Faribault. The college provides over 2,500 full-year equivalent students with two-year degree and certificate programs in diverse areas such as farm business management, accounting, health care, and computer technology. The college also offers customized training courses. Dr. Keith Stover has served as South Central's president since July 1999.

Each campus has a contractual relationship with a foundation. The South Central Technical College – Mankato Campus Foundation and the Faribault Foundation exist to provide student scholarships and support specified campus activities. Each foundation had annual audits of its financial activities. The foundations provided the students about \$180,000 in scholarships and grants for the year ended June 30, 2002.

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Chapter 2. Financial Management

Chapter Conclusions

South Central Technical College operated within available resources and complied with applicable legal provisions and management's authorization.

The college's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded state treasury and local bank account financial activities, and it complied with applicable legal provisions and management's authorization.

The college maintained an appropriate operating relationship with its foundations.

MnSCU receives appropriations from the state's General Fund for the majority of its operational funding. The Office of the Chancellor uses an allocation formula to allocate appropriated funds to South Central Technical College and other colleges and universities. In addition to state appropriations, South Central Technical College, like all other MnSCU institutions, retains its tuition and other dedicated revenues to determine its available resources.

Once the college determines its available resources, it allocates funding to the various administrative and academic programs. The college generates and distributes monthly financial reports that program managers use to monitor the financial status of the programs.

South Central Technical 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. South Central Technical College uses the MnSCU accounting system to record financial transactions for activities within both the state treasury and local accounts. MnSCU accounting transactions that use 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.

To ensure the accuracy of its financial records during the audit period, the college performed reconciliations of recorded cash balances to its local bank account monthly statements. It also performed monthly reconciliations between MnSCU accounting and the state's accounting system. The college developed numerous queries to use during the reconciliation process.

In our prior audit report, we noted two areas where the college could improve its financial management. As explained below, the college made some progress in resolving these issues, but still needed to take some action to fully correct the problems.

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- In its auto body repair program, the college needed to better control receipts for auto body services provided by students. The college took steps to have receipts collected by the cashier rather than by the program instructors. Although the program instructors directed cash and credit payments to the cashier, they continued to collect payments made by check. When made aware of this oversight during the audit, the business office promptly contacted the instructors and corrected the weakness. The college annually collects approximately \$43,000 in auto body resale services.
- The college had been unable to reduce its past due account receivable from a day care center that provides services to children of South Central Technical College students, faculty, and, as space permits, to the general public. Similar to the situation in June 2000, past due receivables as of April 2003 for food services provided to the non-profit day care center totaled approximately \$8,500; some invoices were 200 days past due. Monthly billings averaged about \$1,000. Since the last audit, the college revised its contract with the day care center (to make late payment a possible condition to terminate the contract), monitored the outstanding receivable, and regularly communicated with the day care provider, but prompt payment remained a problem. In May 2003, the college agreed to a payment schedule to bring the outstanding balance to about \$3,000, representing one quarter's receivable, which the college believes is a reasonable balance.

Audit Objective and Methodology

The primary objective of our review of South Central Technical College's financial management structure was to address the following questions:

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that it adequately safeguarded and recorded state treasury and local bank financial activities and complied with applicable legal provisions and management's authorization?
- Did the college establish appropriate operating relationships with its foundations?

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

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Conclusions

South Central Technical College operated within available resources and complied with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded its state treasury and local bank account financial activities and complied with applicable legal provisions and management's authorization. The college maintained appropriate operating relationships with its foundations

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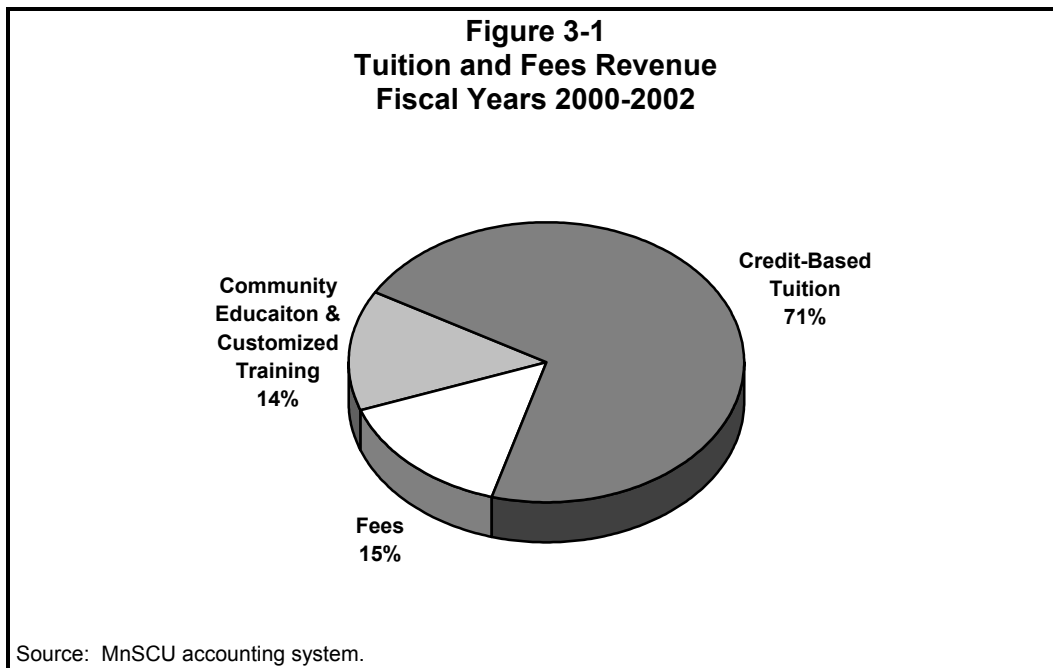
Chapter 3. Tuition and Fees

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded tuition and fee revenue collections, and that it complied with applicable legal provisions and management's authorization.

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

South Central Technical College collected tuition for credit-based courses, community education courses, and customized training courses and assessed fees for various services and activities. Figure 3-1 shows the breakdown of revenue by type.



Credit-Based Tuition and Fee Revenue

South Central Technical College collected approximately \$6.6 million in tuition and fees during fiscal year 2002. The college used the accounts receivable module of the MnSCU Integrated Student Record System to register and bill students and record tuition collections. The accounts receivable module accumulates student charges from a variety of sources. When students pay

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their bill at the bookstore, a staff member enters the collections into the system, and the system automatically applies the money to the outstanding balances in a specified priority order. As part of the daily close process, a college employee produces a report that summarizes the day's collections and postings. College staff use this report to balance the cash registers to transactions posted to MnSCU accounting.

The college charged students varying tuition rates depending on their place of residence. Table 3-1 shows the tuition rates for resident and non-resident students during our audit period.

Table 3-1
Resident and Non-resident Tuition Rates
Fiscal Years 2000 through 2002

<u>Fiscal Year</u>	<u>Resident Rate</u>	<u>Non-resident Rate</u>
2000	\$68.00	\$136.00
2001	\$70.00	\$140.00
2002	\$75.00	\$150.00

Note: Tuition rates shown are per semester credit hour.

Source: South Central Technical College's tuition rate tables.

Generally, the college required students to pay tuition and fees by the drop/add period deadline. The college dropped students who had not paid by the deadline and placed holds on students' accounts, preventing the students from enrolling or obtaining grades or transcripts until they paid the bill. The college pursued past due accounts receivable by sending delinquent accounts to the Minnesota Collection Enterprise, the state's centralized collection function. The Minnesota Collection Enterprise pursued collection of the outstanding balances until paid or determined to be uncollectible.

Customized Training

In addition to credit-based tuition revenue, the college collected revenue for customized training, including continuing education and contract training courses. 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 determined tuition rates or established contracts for customized training classes on a course-by-course basis. The college began using the third party and customized training module of the MnSCU Integrated Student Record System in fiscal year 2001.

Audit Objective and Methodology

The primary objective of our review of tuition and fees was to answer the following question:

- Did the college's internal controls provide reasonable assurance that it adequately safeguarded and accurately recorded tuition and fee collections and complied with applicable legal provisions and management's authorization?

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To meet this objective, we interviewed college employees to gain an understanding of the controls over tuition and fees. We assessed risks and performed analytical tests to identify possible unusual trends. We reviewed student registration, billing records, and MnSCU accounting records to determine if the college charged students appropriate tuition and fees, and that the college properly recorded receipt transactions to MnSCU accounting. We also reviewed bank deposit documentation and reconciliations to determine if the college properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions. We reviewed computer system security clearances to determine if the college adequately limited access to its data.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded tuition and fee revenue collections, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning tuition and fees

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Chapter 4. Employee Payroll

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions and bargaining unit agreements.

Employee payroll represents the college's largest expenditure. South Central Technical College expended approximately \$12.6 million in payroll-related costs during fiscal year 2002. The college employs about 330 full and part time faculty and classified and unclassified staff positions. College employees belonged to the following compensation plans:

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

South Central Technical College maintains its human resources and payroll functions at its Mankato campus, using MnSCU's and the State of Minnesota's centralized information systems. The payroll section processes biweekly payroll transactions on the state's payroll and personnel system. The state's payroll system interfaces with the State Colleges and Universities Payroll and Personnel System, which provides employment history, pay rates, and bargaining contract details for all college employees. The college's human resources section enters all personnel changes and new employee records onto the State Colleges and Universities Payroll and Personnel System.

Audit Objectives and Methodology

Our review of South Central Technical College's payroll expenditures focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization?

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- For the items tested, did the college comply with material finance-related legal provisions and bargaining unit agreements?

To answer these questions, we made inquiries of the college's staff to gain an understanding of the payroll and personnel processes. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documentation to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. We also reviewed severance and retroactive payments to determine if the college accurately calculated the payments and whether they appeared reasonable. In addition, we reviewed the system security clearances for payroll and human resources personnel.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions and bargaining unit agreements.

Chapter 5. Administrative and Resale Expenditures

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that the college adequately safeguarded its assets, accurately recorded administrative and resale expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. For the items tested, the college complied, in all material respects, with applicable legal provisions concerning administrative and resale expenditures.

South Central Technical College staff and faculty incur various administrative expenditures to facilitate the educational mission of the college. Our audit focused on expenditures for purchased services, consultant/contract services, travel, supplies, supplies for resale, and equipment. From fiscal years 2000 through 2002, expenditures for these areas averaged approximately \$6.9 million per fiscal year. Table 5-1 shows a breakdown of these expenditure areas.

**Table 5-1
Selected Expenditures
Fiscal Years 2000 - 2002**

<u>Description</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Purchased Services	\$1,402,678	\$1,546,562	\$1,097,664
Consultant/Contract Services	1,689,570	1,032,981	1,297,195
Travel	457,941	545,127	448,349
Supplies	1,793,504	1,969,852	1,625,164
Supplies for Resale	1,107,066	1,094,274	1,438,615
Equipment	<u>750,458</u>	<u>360,442</u>	<u>1,046,377</u>
Total	<u>\$7,201,217</u>	<u>\$6,549,238</u>	<u>\$6,953,364</u>

Source: MnSCU accounting system.

To purchase goods or services, college departments submitted a purchase requisition to the purchasing department. The purchasing department verified that funds were available in the appropriate cost center, encumbered funds, and created and sent purchase orders to the vendors. The business office received vendors' invoices, verified that the college had received the goods or services, matched the invoice to the purchase requisition and purchase order, and processed the payments on the MnSCU accounting system.

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Audit Objective and Methodology

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

- Did the college's internal controls provide reasonable assurance that it adequately safeguarded assets, accurately reported administrative and resale expenditures in the accounting records in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with applicable legal provisions concerning administrative expenditures?

To answer these questions, we interviewed college employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative and resale expenditures to determine if the college properly authorized, processed, and recorded the items, and if it complied with applicable finance-related legal provisions. 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 clearance to initiate encumbrances and payments in MnSCU accounting.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative and resale expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. For the items tested, the college complied, in all material respects, with applicable legal provisions concerning administrative and resale expenditures.

Chapter 6. Bookstore Revenue

Chapter Conclusions

South Central Technical College's internal controls provided reasonable assurance that it safeguarded and accurately recorded bookstore revenues in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore deposits.

South Central Technical College had bookstore operations at both the Mankato and Faribault campuses. The bookstores sold textbooks, school supplies, clothing, gifts, and other items. The college accounted for the bookstore operations as enterprise funds, in a manner similar to a private business. Bookstore revenues are nearly \$1 million annually. The bookstores also served as the college's main point of collection for other revenues, including tuition, fees, and resale activities.

Table 6-1 shows the bookstore income statement, as prepared by the college, for the year ended June 30, 2002.

Table 6-1
Mankato Campus Bookstore
Income Statement
Fiscal Year 2002

Sales	\$963,056
Cost of Goods Sold	<u>(702,342)</u>
Gross Profit	\$260,714
Miscellaneous Income	<u>4,391</u>
Adjusted Gross Profit	<u>\$265,105</u>
Operating Expenses	
Salaries	\$158,955
Other Expenses	<u>21,782</u>
Total Operating Expenses	<u>\$180,737</u>
Income (Loss) from Operations	<u>\$ 84,368</u>

Note: The college calculated but did not allocate indirect costs to the bookstore. Bookstore expenses included certain administrative services, such as tuition collection, that provided benefit to the college's general operations. The college estimated that scholarships provided with bookstore resources exceeded the unallocated indirect costs by about \$8,000 for fiscal year 2002.

Source: South Central Technical College prepared financial statements (unaudited).

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Audit Objective and Methodology

The primary objective of our review of bookstore revenues was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it safeguarded and accurately recorded bookstore revenues in the accounting records and complied 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 bookstore deposits?

To answer these questions, we interviewed bookstore and business office staff to gain an understanding of bookstore operations. We tested a sample of receipt transactions to determine if the college accurately deposited and recorded the receipts in the accounting system. We also reviewed bank deposit documentation to determine if the college complied with applicable legal provisions.

Conclusions

South Central Technical College's internal controls provided reasonable assurance that it safeguarded and accurately recorded bookstore revenues in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore deposits.

Status of Prior Audit Issues As of March 27, 2003

Most Recent Audits

College Audit

Legislative Audit Report 00-38, issued in August 2000, covered the period July 1, 1997, through December 31, 1999. The audit covered the college's material activities, including tuition and fees, payroll, administrative expenditures, student financial aid, and resale activities. The report contained four findings, two of which have been fully resolved. As noted in Chapter 2, the college continues to work toward full resolution of weaknesses noted for auto body resale receipts and prompt payment from a day care provider.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU basic financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received unqualified opinions for fiscal years 2001 and 2002. As a part of the audit, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters. The fiscal year 2001 management letter contained 13 comments, and the fiscal year 2002 management letter contained 7 comments. One of the issues related to inadequate separation of duties in South Central's student payroll process. The college has corrected the weakness identified by the auditors.

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 audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU 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. The process covers all colleges and universities within the MnSCU system.