OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Dakota County Technical College

July 1, 1999, through June 30, 2002

JUNE 26, 2003 03-34

Financial Audit Division

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Dr. Ronald E. Thomas, President
Dakota County Technical College

We have audited selected areas of Dakota County Technical College for the period July 1, 1999, through June 30, 2002. Our audit scope included: financial management, tuition and fees, customized training, payroll, operating and resale expenditures, and selected auxiliary revenues. We also reviewed the college's internal controls over compliance with state student financial aid. Our scope did not include federal student financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. The audit objectives and conclusions are highlighted 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 Dakota County 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 Dakota County Technical College , and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 26, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia Gudvangen

Claudia Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 16, 2003

Report Signed On: June 20, 2003

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Carl Otto, CPA, CISA	Auditor-In-Charge
Connie Stein	Auditor
Kathy Fisher, CPA	Auditor
Irene Hass	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Office of the Chancellor and Dakota County Technical College at the exit conference held on June 5, 2003:

Office of the Chancellor:	
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Paul Portz	Internal Auditor, Internal Auditing
Dakota County Technical College:	
Ron Thomas	President
Connie Garrahy	Director of Business Affairs

Report Summary

Dakota County Technical College's financial controls showed improvement over prior audits. The current audit found that reconciliations were timely, bank collateral monitoring and deposit delivery controls were improved, and concerns with its Joint Powers Agreement were addressed. The college's budgetary controls provided reasonable assurance that it operated within available resources, and critical state treasury and bank account reconciliations ensured that financial activities were accurately recorded in the accounting records. We noted the following internal control weaknesses and compliance concerns impacting the safeguarding of assets and recording of financial activities in the college's accounting systems.

Key Findings and Recommendations:

- College cashiers, and customized training staff with access to cash, could adjust or alter accounts receivable balances. We recommended the college limit incompatible access or develop alternative detective controls. In addition, the college only retained supporting documentation for backdated cancellation of registration transactions for one year. (Findings 1 and 2, pages 9 and 10)

- The college did not promptly pay all bookstore, auto parts counter, and cafeteria invoices. We recommended timely payment to take advantage of purchase discounts and minimize the risks of duplicate payments. We also noted that the college did not adequately secure certain bookstore inventory and recommended that the college examine other options for secure storage. (Findings 3 and 4, pages 15 and 16)

- The college did not adequately control bookstore or cafeteria cash receipts. Collections were vulnerable to theft as independent staff did not verify sales evidence. We also encountered unusual bookstore practices regarding sales transaction voids and recommended that the college independently review voids, returns and cancellations, find other ways to perform "price checks", and compare the daily sales recap worksheets to the cash register tape or sales summary supporting bookstore and cafeteria collections. (Finding 5, page 19)

Dakota County 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, payroll, operating and resale expenditures, bookstore and cafeteria receipts, and state financial aid for the period July 1, 1999, through June 30, 2002. The college's response is included in the report.

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Chapter 1. Introduction

Dakota County Technical College (DCTC) is a two-year technical college located in Rosemount, Minnesota offering more than 50 career majors in a variety of disciplines. In addition to its Rosemount campus, the college also provides classes at four other locations, in Burnsville, Eagan, Richfield, and South St. Paul. For the 2001-02 school year, the college's student population totaled 2,033 full-year equivalent (FYE) students. Dr. Ronald E. Thomas was appointed college president in September 1999.

The college's overall mission is to provide collegiate-level education for successful employment in occupations related to their area of training. More specifically, the purposes of college are to:

- provide technical education that meets employment needs;
- provide general education which enables students to succeed in an increasingly complex world;
- provide developmental education that prepares individuals to succeed in collegiate-level education;
- provide learning resources and support services needed to promote student success;
- provide customized training and technical assistance for business and industry to promote economic development; and
- develop partnerships with business and industry to strengthen and expand educational opportunities.

A Joint Powers Agreement exists between Dakota County Technical College and Intermediate School District #917. This agreement describes the shared use and care of the buildings and property by the two public entities. At the campus, the college and the school district both offer and provide training within the buildings and surrounding property.

Dakota County Technical College finances its operations primarily from state appropriations and student tuition and fees. During fiscal year 2002, the college generated about $8.2 million in tuition and fee revenues, and obtained state appropriations of $12.3 million. The college's financial activities for the fiscal year ended June 30, 2002, are reported in the MnSCU General Purpose Financial Statements and Supplemental Schedules. The financial statements received an unqualified opinion from an independent auditor.

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Chapter 2. Financial Management

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. Critical state treasury and bank account reconciliations to the accounting system were timely completed to ensure accuracy of balances.

For the items tested, the college complied with applicable collateral requirements for its local bank accounts. The college also had an appropriate operating relationship with its foundation.

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

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

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

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

Dakota County Technical College

Audit Objectives and Methodology

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

- Did the college's budgetary controls provide reasonable assurance that it operated within available financial resources?
- Did the college's internal controls provide reasonable assurance that state treasury and local bank financial activities were adequately safeguarded, properly recorded in the accounting system, and in compliance with applicable legal provisions and management's authorization?
- Did the college establish an appropriate operating relationship with its affiliated foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the financial areas included in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and state treasury and bank account reconciliations. MnSCU accounting transactions were reviewed and analyzed to determine if the college properly recorded its state treasury and local bank activities. We also reviewed bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Finally, we reviewed security privileges to determine whether the college monitored employee access to its computerized business systems.

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. Critical state treasury and bank account reconciliation's to the accounting system were timely completed to ensure accuracy of balances.

For the items tested, the college complied with applicable collateral requirements for its local bank accounts. The college also had an appropriate operating relationship with its foundation.

Chapter 3. Tuition, Fees, and Customized Training Revenue

Chapter Conclusions

The college's internal controls provided reasonable assurance that tuition, fees, and customized training revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, internal controls could be improved by restricting cashiers from posting accounts receivable adjustments or developing alternative detective controls to review their work. In addition, we found that the college only retained documentation supporting backdated cancellation of registration transactions for one year.

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

Dakota County Technical College offers credit-based courses that lead to a diploma, certificate, or an associate degree. The largest programs include computer careers, graphic design technology, telecommunications, and automotive technology. On a space available basis, the college allows Minnesota high school juniors and seniors to enroll in college courses as post secondary enrollment option students. During fiscal year 2002, the resident tuition rate for credit-based classes was $81.80 and the nonresident rate was $163.60. Total fees were $15.25 per credit. The college used the MnSCU Integrated Student Records System accounts receivable module to register, bill, and collect tuition. The business office staff at the campus collected tuition and fees and deposited the receipts daily in the local bank account.

In addition to credit-based courses, the college collected revenue from customized training, including continuing education open enrollment courses and contract courses. The college offered continuing education courses to the general public, while it developed contract-training courses to meet the educational needs of a specific business or industry. The college based the rate for these classes on market conditions and considered instructor fees, overhead, and other related costs. For contract courses, the customized training department used the Customized Training Income Contract Module in the Integrated Student Records System. Despite efforts to direct customized training collections to the business office, some receipts were mailed or dropped off at customized training departments. We noted that the customized training department did not prepare receipt logs from August 2001 through August 2002 for collections inadvertently received. These logs list individual receipts to provide assurances that the department properly accounted for collections and promptly submitted monies to the business office for deposit for that period of time. The college restored the use of a receipts log in 2003.

Dakota County Technical College

The college collected approximately $6.6 million in credit based tuition and fees and $1.6 million in customized training open enrollment and contract training revenue in fiscal year 2002. Table 3-1 shows a breakdown of the revenue by source for fiscal years 2000 to 2002.

Table 3-1
Tuition, Fees, and Customized Training Revenues
Fiscal Years 2000 to 2002

	2000	2001	2002
Tuition	$3,818,232	$4,296,874	$5,539,076
Customized Training	2,637,979	1,984,947	1,564,956
Fees	610,610	910,956	1,092,996
Total	$7,066,821	$7,192,777	$8,197,028

Note: During the audit period, the college shifted courses between customized training and regular credit-based tuition. In 2002, the college experienced enrollment growth and an increase in tuition rates.

Source: MnSCU Accounting for Fiscal Years 2000, 2001, and 2002.

Accounts Receivable

The college uses the MnSCU Integrated Student Record System accounts receivable module. The accounts receivable module accumulates all student charges from a variety of sources. When the students pay their bills at the business office, staff enter the collections and the system automatically applies the money to the outstanding balances in a specified priority order. The college generally dropped students from all courses if they did not pay tuition and fee charges or arrange a deferment by the third business day before the start of the semester.

For students with past-due account balances, the college placed holds on the students' records that prevented them from registering in future semesters until they paid their bill. The college pursued past due accounts receivable by periodically mailing bills to students. If a student did not voluntarily pay, the college referred the account to the Minnesota Collection Enterprise (MCE). The collection agencies pursue collection of the outstanding balance until the student pays off the balance or they determine the account is uncollectible. MCE returned uncollectible accounts to the college. As of June 30, 2002, the college’s financial statements reflected an accounts receivable balance of $495,931. The college provided us with an updated accounts receivable report as of February 26, 2003, reflecting a balance of $280,047.

Audit Objectives and Methodology

The primary objectives of our review of tuition, fees, and customized training revenues were:

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

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

To answer these questions, we interviewed college employees to gain an understanding of controls over billing, collecting, depositing, and recording tuition, fees, and noncredit tuition revenue. We reviewed college tuition and fee rates, student registration and accounts receivable records, and MnSCU accounting records to determine if the college charged students appropriate rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all collected tuition, fee and customized training revenue in compliance with applicable legal provisions. Finally, we reviewed collection activity to determine if the college appropriately pursued collection of accounts receivable.

Conclusions

The college's internal controls provided reasonable assurance that tuition, fee and customized training revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, internal controls could be improved by restricting cashiers from posting accounts receivable adjustments, or developing alternative detective controls to review their work. In addition, we found that the college only retained documentation supporting backdated cancellation of registration transactions for one year. For the items tested, the college complied, in all material respects, with the significant finance related legal provisions concerning tuition, fees, and customized training revenue.

1. PRIOR FINDING PARTIALLY RESOLVED: The college did not adequately restrict certain employee computer access privileges, nor develop alternative mitigating detective controls, ensuring all tuition and fee collections were deposited.

The college did not adequately restrict the ability of cashiers, and customized training staff with access to collections, to initiate accounts receivable adjustments. This privilege would allow staff to remove cash from collections and alter receivable balances without detection. If separation of duties is not cost beneficial, due to a limited number of administrative staff, alternative mitigating controls should be established to reduce exposure.

The college currently has seven staff with incompatible security access. Five business office staff have full access to cashiering and accounts receivable functions, and four of them also had ability to enter customer waivers. In addition, two customized training office personnel had invoicing and receivable correction functions, and also had access to checks being deposited. Ideally, individuals who perform cashiering functions should not have access to adjust accounts receivable records or process waivers.

In order to mitigate risks resulting from limited staffing and incompatible access privileges, the college business office instituted quality control reviews of tuition waivers independent of the campus cashiers. Tuition waivers are periodically reviewed for propriety by the business manager after they are entered by the cashiers. However, similar independent detective reviews were not performed for accounts receivable adjustment and correction transactions entered by cashiers and customized training staff.

Recommendation

- *The college should restrict incompatible access or develop alternative mitigating controls where separation of duties is not feasible. It should consider changing employee duties to provide independent verification of accounts receivable adjustments, similar to what it does for tuition waivers.*

2. The college only retained supporting documentation for backdated registration transactions for one year.

Dakota County Technical College registration guidelines identify the last day a student can "drop" classes and not be assessed tuition and fees. The computerized accounts receivable application allows college staff to eliminate a student's tuition and fee charges by backdating registration cancellation transactions using a date other than the date when the transaction is actually entered. This is legitimately used when a backlog of drops occurs and staff are unable to immediately enter them. However, this transaction eliminates the registration record, and associated tuition revenue and accounts receivable balance, from the system as if it occurred within the established drop period.

We found that the college only retained supporting documentation for backdated registration transactions for one year. Backdated transactions are high risk because they allow employees to reduce revenue and affect student account balances. Without supporting documentation, we were unable to verify the validity of these transactions.

Recommendation

- *Dakota County Technical College should retain proper documentation, including explanations and approvals, for all transactions.*

Chapter 4. Payroll/Personnel

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records.
For the items tested, the college complied with significant finance-related legal provisions concerning payroll.

Payroll is the largest expenditure for Dakota County Technical College. In fiscal year 2002, the college employed approximately 440 full-time and part-time staff, of which 256 were faculty. During the audit period, college employees belonged to the following compensation plans:

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

Beginning in fiscal year 2003, contracts for the technical college and community college faculty were merged to form the Minnesota State Colleges Faculty (MSCF) contract.

The college maintained separate human resource and payroll offices to process personnel and payroll transactions. The college used the state's payroll system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll and human resource transactions. Human resource staff enter salary and pay rate history into SCUPPS, which is used to manage and monitor compensation paid to faculty and staff. SCUPPS assignment codes identify different types of instructional and noninstructional faculty appointments. Faculty do not report hours worked for entry into SEMA4. Instead, payroll staff entered hours worked from classified and part-time employee timesheets into SEMA4, and verified the accuracy of hours posted in SEMA4 and payroll expenditures in the MnSCU accounting system. Leave balances were maintained in SCUPPS for faculty and administrators, while leave earned and taken for classified employees was maintained in SEMA4.

Table 4-1 shows the annual payroll and fringe benefit costs for fiscal years 2000 through 2002.

Table 4-1
Payroll and Fringe Benefit Expenditures
Fiscal Years 2000 to 2002

	2000	2001	2002
Employee Compensation	$10,529,522	$10,736,189	$10,801,425
Fringe Benefits	2,327,109	2,589,794	2,746,147
Total	$12,856,631	$13,325,983	$13,547,572

Source: MnSCU Accounting for Fiscal Years 2000, 2001, and 2002.

Administrators and staff are provided paid vacation and sick leave, and faculty are provided paid sick leave and personal days. At fiscal year-end, the college measures its compensated absence liability, which totaled $1.4 million as of June 30, 2002.

Audit Objectives and Methodology

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

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

- For the items tested, did the college comply, in all material respects, with significant finance-related legal provisions concerning payroll?

To answer these questions, we interviewed college staff to obtain an understanding of the internal control structure over the processing of payroll and personnel transactions. We analyzed employee salaries, reviewed source documents for proper authorization, and recalculated amounts paid to ensure staff were paid in accordance with union contracts and other compensation plans. We tested whether employees had received annual performance evaluations. We also reviewed the reconciliation processes between the MnSCU system, SEMA4, and MAPS. Finally, we reviewed the computer system security clearances for staff that had the ability to update payroll and human resources transactions.

Conclusions

The college's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records.
For the items tested, the college complied with significant finance-related legal provisions concerning payroll.

Chapter 5. Operating and Resale Expenditures

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that operating and resale expenditures were accurately reported in the accounting records and made in compliance with applicable legal provisions and management's authorization, and that assets were safeguarded. However, we found that the untimely payment of invoices, mainly from remote resale operations, caused the college to lose available discounts and posed an increased risk of duplicate payment from subsequent vendor rebilling of the outstanding amount. In addition, we observed bookstore inventory in an unsecured area and recommended that management review storage options.

For the items tested, the college complied with significant finance-related legal provisions concerning procurement and payment of goods and services.

College administrators, faculty, and staff incur various operating and resale costs to facilitate the educational mission of the college. Supplies for resale included bookstore, cafeteria, and other resale areas. Our audit focused on purchased and consultant contract services, utilities, supplies, supplies for resale, and equipment. Expenditures in these areas for fiscal years 2000 to 2002 are shown in Table 5-1.

Table 5-1
Selected Operating Expenditures
Fiscal Years 2000 to 2002

Expenditure Category	2000	2001	2002
Purchased Services	$1,841,413	$2,040,945	$2,385,591
Consultant/Contract Services	2,059,500	1,867,188	1,504,160
Utilities	587,301	685,308	566,938
Supplies	1,339,287	1,913,107	1,788,637
Supplies for Resale	1,508,529	1,270,456	1,191,897
Equipment (Note 1)	635,827	906,085	1,656,638
Total	$7,971,857	$8,683,089	$9,093,861

Note 1: Included in equipment costs for fiscal year 2002 was a noncash expense of $675,000 for an in-kind donation of equipment that the college received.

Source: MnSCU accounting system for fiscal years 2000, 2001, and 2002.

To purchase goods or services, college departments submitted an authorized purchase requisition to the purchasing department. The purchasing department obtained price quotes or bid purchases up to $25,000. Purchases over $25,000 required formal sealed bids solicited by public notification, pursuant to MnSCU policy. The purchasing department assured that funds were available in the appropriate cost center by initiating a system encumbrance. The college created a purchase order that was sent to the vendor. The business office subsequently received the invoice and matched it to the purchase requisition and purchase order. Resale invoices were received at the bookstore, food service, and parts counter and forwarded to the business office after they were matched with the purchase order. The business office processed the payments on the MnSCU accounting system.

MnSCU System Procedure 5.14.5, Part 11, Fixed Assets, requires that the institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000. The college tracks new equipment purchased on the MnSCU system.

Customized training operating expenditures, excluding payroll, totaled approximately $1.6 million and were recorded in the college's General Fund accounts. Customized training programs incur various leases, contracts, and equipment costs for the various programs they operate and payment is made through the college business office. The college's cafeteria operations are also recorded in the General Fund. Food is ordered and received by the cafeteria manager and invoices forwarded to the business office for payment. For fiscal year 2002, the cafeteria incurred approximately $237,000 in nonpayroll expenditures.

The college bookstore is run as a private business and recorded in an enterprise fund. College faculty order academic textbooks from the bookstore. The bookstore manager orders the books, and other items, and the items are delivered directly to the bookstore. Vendor invoices are received at the bookstore and forwarded to the business office for payment. Nonpayroll expenses for the bookstore in fiscal year 2002 totaled approximately $659,000. The largest bookstore costs were for purchases of new and used books for academic courses. Other bookstore purchases included school supplies, clothing, and gift items.

Audit Objective and Methodology

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

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

- Did the college comply with the significant finance-related legal provisions concerning operating and resale expenditures?

To answer these questions, we interviewed college employees to gain an understanding of the procurement and disbursement process. We tested operating and resale expenditures, including the bookstore and cafeteria, to determine if the college properly authorized, processed, and recorded the transactions. We also examined expenses to determine if the college complied with applicable legal provisions concerning procurement and prompt payment of college obligations. Finally, we reviewed the college's process to record and verify the existence of fixed assets.

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that operating and resale expenditures were accurately reported in the accounting records and made in compliance with applicable legal provisions and management's authorization, and assets were safeguarded. However, we found that the untimely payment of invoices, mainly from remote resale operations, caused the college to lose available discounts and posed an increased risk of duplicate payment from subsequent vendor rebilling of the outstanding amount. In addition, we observed bookstore inventory in an unsecured area and recommended that management review storage options.

For the items tested, the college complied with significant finance-related legal provisions concerning procurement and payment of goods and services.

3. PRIOR FINDING SUBSTANTIALLY RESOLVED: The college lost available discounts and faced increased risk of duplicate payments by not promptly paying invoices.

While internal controls over expenditures have improved, we noted some continued concern with the untimely payment of invoices from remote areas including the bookstore, parts counter, and cafeteria. The college did not pay some invoices within the discount period, and many payments were not made until over 30 days after the obligation date, because invoices were not timely sent to the business office. For the 60 payments we examined, 18 were paid over 30 days after the obligation date and two available discounts of $22 and $23 were not obtained on bookstore payments. Of the 18 exceptions, we found that 8 were from the bookstore, 3 from the parts counter, and 4 were food service invoices.

Remote retail areas tended to combine several invoices into one payment. For example, one bookstore payment was for eight invoices, totaling $79,373, and was paid from 2 to 39 days late. It appears that many of the payment delays resulted because supporting documentation was not timely submitted to the business office. Ideally, vendors should be paid within the discount period, due date, or 30 days, unless there is an invoice problem or contested charge. In addition to lost discounts, untimely payments of vendor obligations increase the risk of duplicate payments since the vendor may submit another invoice for the unpaid shipment.

Recommendation

- *The college departments should submit invoices to the business office for payment in a timely manner to take advantage of payment discounts and minimize the risk of duplicate payment. Vendor invoices should be paid within the discount period, due date, or 30 days, whichever comes first.*

4. The college did not adequately safeguard certain bookstore inventory.

We observed supplies and books stacked in approximately 30 unopened boxes outside the bookstore area. The inventory was unsecured in an area accessible to staff and students. Inventory assets should be locked in a secure area to prevent loss or theft, or ordered in smaller increments to allow storage inside the current bookstore area.

Recommendation

- *College management should assess options for the secured storage of bookstore inventory to prevent loss or theft.*

Chapter 6. Bookstore and Cafeteria Receipts

Chapter Conclusions

The college did not adequately control its bookstore and food services receipts. Collections were vulnerable to theft as independent staff did not verify bookstore and cafeteria cash register tapes to deposits. In addition, there was no independent review of voids, returns, and cancellations. We also encountered unusual practices regarding sales transaction voids. Differences totaling $730 on four deposits tested were for voided transactions not rung into the cash register. We were given customer receipt slips with "void" written on them to support the differences. In addition, when reviewing fiscal year 2003 transactions recorded on a new point-of-sale system, we encountered over $28,000 of voided sales transactions for "price checks." We felt this was an unacceptable practice and recommended that the college research options for performing "price checks" without recording a sale and voiding the transaction.

For the items tested, the college complied with the significant finance-related legal provisions concerning deposit of bookstore and cafeteria receipts.

Bookstore

Dakota County Technical College's bookstore sold a variety of products, including textbooks, safety equipment, apparel, and other miscellaneous supplies. Students have the option of paying by check, cash, credit card, or financial aid. Sales are recorded on a cash register. At the end of each business day, the cash register is closed out and receipts are reconciled to the cash register tapes. Receipts are stored in a safe overnight and deposited the next business day. The bookstore manager prepares a "Daily Statement of Business" report that summarizes receipts. This report, along with the cash register tapes and deposit slip, are forwarded to the business office for review and entry into MnSCU accounting. The business office subsequently compares the bank customer receipt showing the amount deposited to the deposit slip prepared by the bookstore manager.

Starting in August 2002, after our audit period, the bookstore obtained a new point-of-sale cash register system. The point-of-sale system gathers all daily sales data and prints reports that the bookstore manager uses to prepare the Daily Statement of Business Report for the daily cash reconciliation. The bookstore manager forwards the summary report and point-of-sale reports to the business office for entry into MnSCU accounting. In addition, the point-of-sale system allows the college to automatically track its inventory sales.

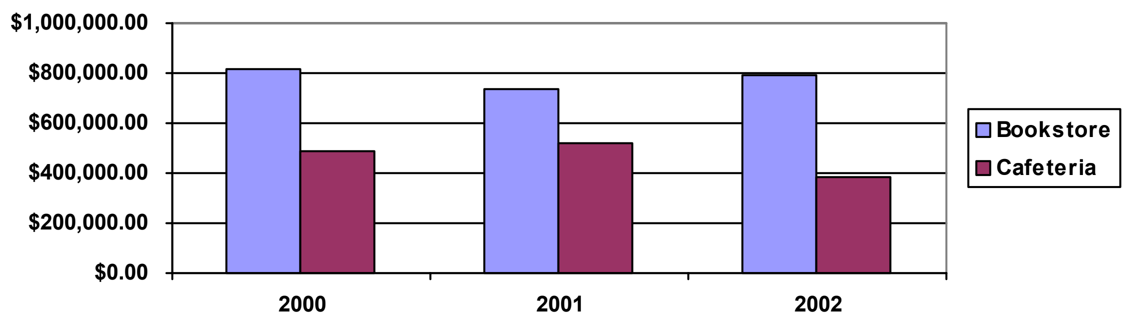
Dakota County Technical College

Cafeteria

Dakota County Technical College operates its own cafeteria through the General Fund. At the end of each business day, the cash registers are closed out and the cafeteria manager reconciles receipts to the cash register tapes and prepares the Daily Statement of Business Report. Receipts are stored overnight in a safe at the cafeteria. The next morning the cafeteria manager delivers the Daily Statement of Business Report, the receipts, and deposit slip to the business office. From the business office, the receipts are taken to the bank. The business office records the receipts in MnSCU accounting.

Figure 6-1 shows bookstore and cafeteria revenue for fiscal years 2000, 2001, and 2002.

Figure 6-1
Bookstore and Cafeteria Revenues
By Fiscal Year



Source: Fiscal years 2000 – 2002 Dakota County Technical College accounting records as of December 31, 2002.

Audit Objectives and Methodology

We focused our review of auxiliary receipts on the following objectives:

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

- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore and cafeteria receipts?

To answer these questions, we interviewed college staff to determine how receipts were processed for the bookstore and cafeteria and the roles played by the different college personnel in the process. We analyzed transactions and tested receipts generated by daily sales activity in the bookstore and cafeteria as recorded on MnSCU accounting.

Conclusions

The college did not adequately control its bookstore and food services receipts. Collections were vulnerable to theft as independent staff did not verify bookstore and cafeteria cash register tapes to deposits. In addition, there was no independent review of voids, returns, and cancellations. We also encountered unusual practices regarding sales transaction voids. Differences totaling $730 on four deposits tested were for voided transactions not rung into the cash register. We were given customer receipt slips with "void" written on them to support the differences. In addition, when reviewing fiscal year 2003 transactions recorded on a new point of sale system, we encountered over $28,000 of voided sales transactions for "price checks." We felt this was an unacceptable practice and recommended that the college research options for performing "price checks" without recording a sale and voiding the transaction.

For the items tested, the college complied with the significant finance-related legal provisions concerning deposit of bookstore and cafeteria receipts.

5. The college did not provide for independent verification of bookstore or cafeteria receipts, and bookstore deposit shortages revealed unusual void practices.

The college did not adequately control its bookstore or cafeteria receipts. The managers of the bookstore and cafeteria had access to cash, maintained the accounting records, and performed the daily cash reconciliation and prepared the daily deposits. In addition, supporting cash register sales summaries were not forwarded to the business office for independent comparison to cash deposited. Concentrating all of the duties on one employee increased the risk that errors or misappropriation of funds could occur and go undetected.

During the audit period, we noted differences of $730 between the bookstore cash register tapes and deposit amounts on 4 of 15 deposits submitted by the bookstore manager. The bookstore substantiated these differences by providing customer receipt slips with "void" written on them. These voids were not rung through the cash register like other bookstore voids entered on those same days. We further investigated fiscal year 2003 deposits after the college began using a new point-of-sale system and we identified another unusual practice. On one-day void transactions totaling $28,000 were posted to the system. We were told that these were for "price checks" where the point-of-sale system recorded a sale and the transaction was voided. No documentation was prepared nor did an independent review of these voids occur. We feel that recording "price checks" as sales and then voiding them is an unacceptable practice, which exposes the college to potential for loss or theft.

Recommendations

- *The college business office should verify the daily sales recap worksheets for the bookstore and cafeteria to supporting register tapes or point-of-sale reports to ensure the accuracy and completeness of daily deposits. Voids should be properly supported by documented and valid approvals or explanations.*

- *The college bookstore should review its new point-of-sale system and determine optional ways of performing "price checks" without recording a sale and voiding the transaction.*

Chapter 7. State Financial Aid Grants

Chapter Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that state financial aid grant disbursement transactions were properly recorded in the accounting system and administered in accordance with applicable state regulations and management's authorization. For the items tested, the college complied with applicable state requirements over eligibility and disbursing state grant funds.

The college participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. MnSCU hires a private CPA firm to audit federal financial aid. The Minnesota Higher Education Services Office (MNHESO) administers state grant financial aid appropriations and establishes eligibility requirements for the state grant program. MNHESO reimburses the college for eligible grant disbursements. The college packages Minnesota state grants along with federal financial aid. For fiscal years 2000, 2001, and 2002, the college disbursed Minnesota state grants totaling $417,626, $507,631, and $511,670, respectively.

In June 2001, MNHESO completed an audit of state grants for the 1999-2000 academic year. The audit contained four findings that the college worked with MNHESO to resolve.

Audit Objectives and Methodology

The primary objectives of our audit of state financial aid grants were to answer the following questions:

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

- Did the college comply with material finance-related legal provisions governing state grants?

To address these objectives, we interviewed employees from the college's financial aid and business offices to gain an understanding of the internal control structure. Since the HESO audit covered fiscal year 2000, we focused our work on controls of Minnesota state grants for fiscal years 2001 and 2002. We tested student eligibility criteria and accuracy of grant payments.

Dakota County Technical College

Conclusions

Dakota County Technical College's internal controls provided reasonable assurance that state grant student financial aid disbursement transactions were properly recorded in the accounting system and administered in accordance with applicable state regulations. For the items tested, the college complied with applicable requirements over eligibility and disbursement of state grant funds.

Status of Prior Audit Issues
As of April 16, 2003

Most Recent Audits

College Audit

Legislative Audit Report 00-36, issued in August 2000, covered the period July 1, 1996, through December 31, 1999. The audit cited 13 audit findings related specifically to Dakota County Technical College. The college implemented or partially resolved these findings, however, two are repeated in this report. There continues to be a need to restrict the cashiers' ability to perform accounts receivable adjustments without effective mitigating controls, as discussed in Finding 1. Also, we reported in Finding 4 the continued concern with untimely payment of invoices from remote areas like the bookstore, parts counter, and cafeteria.

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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June 9, 2003

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recent audit report for Dakota County Technical College. We are in general agreement with the findings and will implement necessary changes. We are pleased that the report noted overall sound financial management.

Our employees also appreciated the professionalism and courtesy of your staff. The responses to the findings are attached.

Sincerely,

/s/ Ronald E. Thomas

Ronald E. Thomas
President

enclosure

1. *The college did not adequately restrict certain employee computer access privileges, nor develop alternative mitigating detective controls, ensuring all tuition and fee collections were deposited.*
   Response: The college will review the volume and amount of accounts receivable adjustments to determine the appropriate mitigating control, taking into account staffing levels. This may include a review similar to the review done for waivers.
   Responsible person: Connie Garrahy, Director of Business Affairs.

2. *The college only retained supporting documentation for backdated registration transactions for one year.*
   Response: The college will ensure that backdated registration documentation will be kept for three years or until audited, or will determine whether entering the reason code into ISRS when entering a back dated drop is adequate.
   Responsible person: Rachel Errkila, Registrar.

3. *The college lost available discounts and faced increased risk of duplicate payments by not promptly paying invoices.*
   Response: The college will strive to pay invoices timely, although we would like to note that the majority of bookstore sales come in a short period of time when staff have numerous duties to accomplish. It was also noted that no duplicate payments were found, and the cost of additional staff would need to be justified against possible lost discounts.
   Responsible person: Connie Garrahy, Director of Business Affairs.

4. *The college did not adequately safeguard certain bookstore inventory*.
   Response: The college will investigate other storage options for boxes stored in back of the store.
   Responsible person: Connie Garrahy, Director of Business Affairs.

5. *The college did not provide for independent verification of bookstore or cafeteria receipts, and bookstore deposit shortages revealed unusual void practices.*
   Response: The cafeteria now attaches the register tape totals to the daily sales recap sheet, which is reviewed by the business office accounts receivable technician. The bookstore point-of-sale report is attached to the daily sales recap sheet and reviewed by the business office accounts receivable technician to ensure the deposit totals match. All void slips will be retained with the daily sales reports, and approved by the appropriate area supervisor. Missouri Book Systems will be contacted to determine if there is another way to handle price checks.
   Responsible person: Connie Garrahy, Director of Business Affairs.