OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Pine Technical College

July 1, 1999, through June 30, 2002

AUGUST 14, 2003 **03-44**

Financial Audit Division

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

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OFFICE OF THE LEGISLATIVE AUDITOR
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Dr. James H. McCormick, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Robert Musgrove, President
Pine Technical College

We have audited Pine Technical College for the period July 1, 1999, through June 30, 2002. Our audit scope included financial management, tuition and fees, payroll and other administrative expenditures, bookstore revenue, the Employment and Training Center, and selected state grants. Our audit scope did not include federal student financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. We highlight the audit objectives and the conclusions of our audit 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 Pine 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 and the management of Pine Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 14, 2003.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: June 6, 2003

Report Signed On: August 11, 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
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Joan Haskin, CPA, CISA	Auditor-in-Charge
Doreen Bragstad, CPA	Auditor
Marisa Isenberg	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Office of the Chancellor and Pine Technical College at the exit conference held on July 22, 2003:

Office of the Chancellor:

Laura King	Vice Chancellor/Chief Financial Officer
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director, Financial Reporting
John Asmussen	Executive Director, Internal Audit
Paul Portz	Internal Audit Coordinator

Pine Technical College:

Robert Musgrove	President
Kathy Dettinger	Dean of Fiscal Operations

Report Summary

Key Findings and Recommendations:

- Pine Technical College did not adequately restrict certain computer clearances to the MnSCU accounting accounts receivable functions. (Finding 2, page 10)
- The college's controls were inadequate for some backdated registration transactions and for tuition waivers. (Finding 3, page 11)
- The college did not timely reimburse its payroll clearing account. (Finding 5, page 14)
- The college did not maintain adequate separation of duties over purchasing and accounts payable. (Finding 6, page 16)
- The college's controls over the use of its presidential expense allowance account and other special expenses were inadequate. (Finding 7, page 17)
- The college did not maintain adequate controls over its Job Skills Partnership Program. It did not follow MnSCU travel and contracting procedures. Finally, it did not adequately support the amounts reported on some payment reimbursement requests. (Findings 9 through 11, pages 20 - 24)
- The college's bookstore did not have adequate procedures for handling return transactions. (Finding 12, page 26)

Pine Technical College is part of the Minnesota State Colleges and Universities (MnSCU) System. This **financial-related audit report** focused on financial management, tuition and fees, employee payroll, administrative expenditures, the Job Skills Partnership Program, bookstore revenue, the Employment and Training Center, and selected state grants for the period July 1, 1999, through June 30, 2002.

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Chapter 1. Introduction

Pine Technical College was established in 1965 and is now part of the Minnesota State Colleges and Universities (MnSCU) system. Dr. Robert Musgrove became the president of Pine Technical College in 1998. The largest programs offered by the college include automotive technology, administrative support, computer information sciences, and nursing. Pine Technical College also offers unique classes such as gunsmithing and taxidermy. The college is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. For fiscal year 2002, the full-year equivalent student population for the college was 447.

The college funds its operations primarily from state appropriations allocated by the Office of the Chancellor and student tuitions and fees. The total of appropriations and dedicated receipts establishes the spending authority for the college.

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Chapter 2. Financial Management

Chapter Conclusions

Pine Technical College operated within available resources and generally maintained sufficient collateral for its bank accounts. As discussed in the detailed chapters of this report, we found several internal control weaknesses and instances of noncompliance with MnSCU board policies and other finance-related legal provisions, which could prevent the college's financial activities from being properly recorded on the MnSCU and MAPS accounting systems.

Although the college had an appropriate relationship with its foundation, we found that the college did not comply with certain MnSCU policies regarding the foundation.

As required by MnSCU chancellor's office, Pine Technical College used the MnSCU accounting system to record its financial activity and to initiate transactions. For funds held in the state treasury, the MnSCU system interfaces with the state's accounting system (MAPS) to generate warrants from the state treasury. The college administers certain funds, such as financial aid, agency accounts, and enterprise activities in a local bank account. The local bank account also serves as the college's state depository for the transfer of funds into the state treasury.

Audit Objectives and Methodology

The primary objective of our review of Pine Technical College's financial management was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

- Did the college's internal controls provide reasonable assurance that assets were safeguarded and that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

- For the items tested, did the college comply with applicable legal provisions regarding local bank accounts?

- Did the college establish an appropriate relationship with its foundation?

Pine Technical College

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

Budgetary Controls and Financial Operations

MnSCU's Office of the Chancellor allocates appropriated funds to Pine Technical College based upon an allocation formula. The college uses this allocation and tuition and fee revenue estimates to determine the basis for its annual budget. The business office monitors the budgets at a cost center level using monthly budget reports from the MnSCU accounting system. The monthly reports are also sent to the individual cost center managers.

The college performs daily reconciliations of all receipts processed by the business office and bookstore staff to local bank account deposits to provide proper accountability for all receipts. The college reconciles the MnSCU accounting system and the MAPS system periodically. In addition, the college performs monthly bank reconciliations. During its financial statement audit, Deloitte and Touche reported that the college's bank account was uncollateralized for one day during fiscal year 2002.

Pine Technical College is affiliated with the Pine Technical College Foundation, a non-profit organization. The foundation was established in July 1999 and has its own board of directors, articles of incorporation, and bylaws. The purpose of the foundation is primarily to provide student scholarships, capital acquisitions for the college, and support for the faculty. Foundation revenue totaled $53,541 for fiscal year 2002.

Conclusions

Pine Technical College operated within available resources and generally maintained sufficient collateral for its bank accounts. As discussed in the detailed chapters of this report, we found several internal control weaknesses and instances of noncompliance with MnSCU board policies and other finance-related legal provisions, which could prevent the college's financial activities from being properly recorded on the MnSCU and MAPS accounting systems.

Although the college had a contract with its foundation, the college did not comply with certain MnSCU policies regarding the foundation, as discussed below.

Pine Technical College

1. Pine Technical College did not comply with certain MnSCU policies regarding its foundation.

The college did not ensure that the Pine Technical College Foundation obtained an external financial audit. MnSCU Policy 8.3, part 2, subpart E, requires foundations receiving less than $350,000 in revenues annually to submit an external financial audit report at least every three years to the college and the system office. A private CPA firm performed a compilation of the foundation's financial statements for fiscal years 2000 through 2002. However, the foundation has not obtained an external financial audit, as required.

In addition, the college has not calculated the value of services it provided and expenditures it made on the foundation's behalf. The college provides the foundation with various administrative support services, including clerical and secretarial functions, use of equipment and facilities, and coordination of fundraising activities. MnSCU procedure 8.3.1, part 3A, requires colleges providing services to a foundation to account for services provided and expenditures made on behalf of the foundation. The accounting must be made at least annually.

Recommendations

- *Pine Technical College should ensure its foundation submits an external audit at least every three years.*

- *The college should provide an annual accounting of services provided and expenditures made on the foundation's behalf.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Except for the weaknesses identified below, Pine Technical College's internal controls provided reasonable assurance that tuition and fee collections were safeguarded and accurately recorded in the accounting records.

- ***The college did not restrict certain computer clearances to the MnSCU accounts receivable system.***
- ***The college did not maintain documentation for some backdated registration transactions.***

We also found the following instances of noncompliance:

- ***The college did not have a written waiver policy.***
- ***The college paid a refund that did not comply with the college's policy.***
- ***The college included an unauthorized rate in its tuition table.***

Pine Technical College collected tuition and fees each semester from students enrolled in campus programs. Beginning in fiscal year 1999, the college implemented the new MnSCU Student Information System accounts receivable module. The module enabled the college to manage amounts owed by students, send bills to students, and record subsequent collections. Once a student record is created, the student is able to register for classes through a web-based registration form. The system automatically charged the appropriate tuition and fees to student accounts, based upon the student's residence. Students paid their tuition at the campus business office. Business office staff took deposits to the bank daily, and funds are subsequently swept into the state treasury.

Board authorized tuition rates for academic year 2002 were $80 per credit for residents of Minnesota and $160 per credit for non-residents. The college has reciprocity agreements with some border states and Manitoba that allow students to pay Minnesota resident tuition. In addition, the college has a reciprocity agreement with four other Midwestern states, the Midwest Consortium, which allows students to pay a rate that is 150 percent of the resident rate.

Audit Objectives and Methodology

The primary objective of our review of tuition and fees was to answer 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?

Pine Technical College

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

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

Conclusions

Except that the college did not restrict certain computer clearances to the MnSCU accounts receivable system and that the college did not maintain documentation for some backdated registration transactions, Pine Technical College's internal controls generally provided reasonable assurance that tuition and fee collections were safeguarded and accurately recorded in the accounting records. Also, the college did not comply with finance-related legal provisions in three areas. The college did not have a written waiver policy, it paid a refund that did not comply with the college's policy, and it included an unauthorized rate in its tuition table.

2. PRIOR FINDING PARTIALLY RESOLVED: The college did not adequately restrict certain computer clearances to the MnSCU accounting accounts receivable functions.

Pine Technical College did not adequately monitor or control access to the MnSCU accounting system. Three college employees had incompatible clearances to the MnSCU accounts receivable system. These clearances allowed employees to perform a variety of cashiering, receipt correction, tuition waiver, and accounts receivable functions. Ideally, staff with access to cash should not have the ability to adjust student accounts receivable records. Additionally, access to high-risk transactions such as tuition waivers should be limited as much as possible. If certain incompatible access is necessary for back-up purposes, the college must develop mitigating controls to ensure that errors and/or irregularities do not go undetected.

In addition, a student advisor had security access clearance to make adjustments to accounts receivable. The advisor should not have the ability to adjust student accounts.

Recommendations

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

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

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

3. The college's controls were inadequate for some backdated registration transactions and for tuition waivers.

The college did not create or retain supporting documentation for many backdated registration transactions. In addition, the college does not have a written waiver policy as mandated by MnSCU system policy. Finally, the college paid a refund that did not comply with the college's policy.

Seven of the nine backdated transactions we tested did not have supporting documentation that indicated the reason for the backdating or whether the transaction was authorized. The computerized accounts receivable application allows users to eliminate a student's tuition and fee charges by backdating registration cancellation records. MnSCU Policy 5.12 (Refunds, Withdrawals, and Waivers) allows institutions discretion when canceling tuition charges. For example, a student is allowed to drop a class, without obligation, prior to the institution's established "drop date." However, backdated transactions are high-risk transactions because they allow employees to make changes that affect student account balances. Without documentation, we were unable to verify the validity of these transactions.

MnSCU system policy 5.12, Part 1, Subpart C, states that each college shall define the terms under which any authorized waiver will be granted. The policy allows college presidents to waive amounts due to the college for reasons such as employee bargaining agreement benefits, significant personal circumstances, and course conditions. The policy requires the college to develop guidelines that are available to all students to implement this policy. However, the college did not have a written waiver policy, as required. The dean of academic affairs at Pine Technical College has the discretion to grant waivers based on student conditions. The human resources department grants employee tuition waivers. Without a written policy available, students may not know if they qualify for a waiver and the waiver policy may not be consistently applied.

Finally, the college refunded tuition to a student who withdrew from a course after the specified drop/add period. The student originally registered for a four-credit internship but later asked to reduce the number of course credits to two. The dean of student affairs approved the request, but noted on the drop/add form that it was a withdrawal and the student was not entitled to a refund. Despite this, the college issued the student a tuition refund of $188.

Recommendations

- *The college should maintain proper documentation for backdated transactions, including explanations and approvals.*

- *The college should develop a written waiver policy that is available to students.*

- *The college should not issue refunds, except as provided for within its refund policy.*

- *The college should attempt to recover the refund overpayment.*

4. PRIOR FINDING NOT RESOLVED: The college has an unauthorized rate in its tuition rate table.

The college's tuition rate table included an unauthorized tuition rate. The college enters information into the MnSCU system's tuition rate table based on rates approved by the MnSCU Board of Trustees. The accounting system then uses the rates, in conjunction with student registration information, to calculate student tuition bills. During the audit period, the college's rate table included a rate labeled as "Texas Resident Reciprocity" that was 150 percent of the resident rate. There is a high risk that the college could incorrectly assess student tuition if the table is not accurate. However, we also found no evidence that the registration system ever used this rate to calculate an actual student's tuition bill.

Recommendations

- *The college should work with the Office of the Chancellor to remove the unauthorized rate from its tuition rate table.*

- *The college should establish adequate controls to ensure that only tuition rates authorized by the MnSCU Board of Trustees are entered into the accounting system.*

Chapter 4. Employee Payroll

Chapter Conclusions

Pine Technical College's internal controls provided reasonable assurance that employee payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the college did not timely reimburse the payroll clearing account. For the transactions tested, the college complied, in all material respects, with significant finance-related legal provisions concerning payroll.

Payroll represents Pine Technical College's largest annual operating cost, totaling approximately $4.6 million in fiscal year 2002. The college has institution-wide human resource and payroll functions. The human resources section enters all new employee data and makes changes to employee records directly into the State Colleges and Universities Personnel/Payroll System (SCUPPS). The college uses SCUPPS to record and maintain staff assignments, pay rates, and bargaining agreement information. The payroll section gathers timesheets from classified and part-time employees and enters payroll information into the State Employee Management System (SEMA4). The state's payroll system, SEMA4, interfaces with SCUPPS to generate paychecks or direct deposits for college employees.

College employees belonged to various compensation plans during the audit period, including the following:

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

Audit Objectives and Methodology

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

- 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?

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

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll processes. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested pay rate increases for management's authorization and compliance with bargaining unit agreements. In addition, we summarized and reviewed payroll transactions and compared them to SCUPPS appointments for a sample of employees.

Conclusions

The college's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting system and in compliance with applicable legal provisions and management's authorization. However, the college did not timely reimburse the payroll clearing account. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning payroll.

5. The college did not timely reimburse its payroll clearing account.

The college did not make deposits into its payroll clearing account to correspond with payroll pay dates. The college uses a state treasury clearing account to allow employees funded from local accounts, such as the bookstore, to be paid through the state's biweekly payroll system. The college should reimburse the payroll clearing account from local funds each payroll cycle. However, during the audit period, the college reimbursed the payroll clearing account from 4 to 89 days after the payroll was processed, often resulting in negative cash balances in the clearing account. For example, during the month of June 2002, the clearing account had a negative balance that ranged from ($45) to ($1,844). For fiscal year 2003 (through March 31), the college generally reimbursed the account from 12 to 28 days late, including one 114-day period without reimbursement.

Recommendation

- *The college should reimburse its payroll clearing account in a timely manner to coincide with the biweekly payroll cycle.*

Chapter 5. Other Administrative Expenditures

Chapter Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that administrative expenditures were accurately recorded in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, the college did not maintain adequate separation of duties over purchasing and accounts payable. In addition, the college's controls over use of its presidential expense allowance account and special expenses were inadequate. Finally, it overpaid a customized training contractor.

Except for the issues noted above, for the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures.

During the audit period, the college's administrative expenditures included payments for non-payroll items, such as purchased services, professional and technical contracts, supplies, supplies for resale, and equipment. Total administrative expenditures for the year ended June 30, 2002, were $1.5 million. Selected areas that we tested during this audit totaled approximately $1.2 million.

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

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

Pine Technical College

Audit Objective and Methodology

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

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

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

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

Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that administrative expenditures were accurately recorded in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions, including competitive procurement and management's authorization. However, the college did not maintain adequate separation of duties over purchasing and accounts payable. In addition, the college's controls over the use of its presidential expense allowance account and special expenses were inadequate. Finally, it overpaid a customized training contractor.

Except for the issues noted above, for the transactions tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures.

6. The college did not maintain adequate separation of duties over purchasing and accounts payable.

The college did not adequately restrict certain computer clearances to the MnSCU purchasing and accounts payable systems. Three college employees had incompatible clearances that allowed them to both initiate purchases and enter payments for those purchases. Generally, the functions of purchasing, encumbering, and payment processing should be segregated. Employees should not be allowed to initiate purchases and enter payments for those purchases without an independent review of the transactions.

The college's review and approval process for administrative disbursements during the audit period was ineffective. The dean of fiscal operations was responsible for reviewing and authorizing purchases and payments to vendors. However, the dean showed approval to pay through the use of a hand stamp, rather than an original signature. Since the stamp was readily accessible to others, there was no assurance that the dean actually was the person to stamp the payment documents.

Recommendations

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

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

- *The college should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*

- *The college should secure the approval stamp or require the actual signature of an authorized person.*

7. The college's controls over the use of its presidential expense allowance account and other special expenses were inadequate.

The college did not have appropriate controls in place to monitor and approve presidential expense (department head) allowance and other special expense disbursements. The college did not routinely code presidential expenses to the appropriate MnSCU accounting code. In addition, the college did not complete the required approval forms before incurring certain special expenses.

MnSCU system policy 5.20 recognizes that college presidents may incur non-routine expenses in the performance of their duties and responsibilities. The MnSCU policy has two methods for paying these expenses. First, MnSCU procedure 5.20.1, Part 2, describes the process for incurring special expenses. According to the procedure, "special expenses are extraordinary expenses incurred in connection with work-related responsibilities or official functions not generally supported with public funds . . . which are not reimbursable through the regular expense regulations." Second, MnSCU procedure 5.20.1, Part 3, establishes an annual presidential expense allowance of $5,000. The allowance "permit(s) the payment of expenses for which no other reimbursement is provided. All expenditures must have a public purpose and must provide benefit to MnSCU or one of its colleges or universities."

The college routinely paid for and coded costs fitting these definitions as normal administrative expenditures. For example, food was often coded to "supplies for resale." Other costs were also coded as operating costs, rather than either as department head expenses or designated as special expenses. Expenses coded to the MnSCU accounting department head object code in fiscal year 2000 totaled $5,894. However, the college miscoded contractual services of $1,500 as a department head expense during that year. In contrast, the college only coded $92 to the department head object code in fiscal year 2001 and $712 in fiscal year 2002. In addition, the college did not complete special expense forms for qualifying expenditures beyond those considered to be department head expenses. Special expense forms should be used to approve these expenses before any commitments involving special expenses are made. Because the college coded non-routine expenses to a variety of object codes, we could not determine if the college complied with the $5,000 limit for presidential expense during fiscal years 2001 and 2002.

Recommendations

- *The college should correctly code presidential expenses as department head expenses on the MnSCU accounting system. Expenses coded to department head should be limited to the $5,000 annual allowance.*

- *The college should document prior approval before incurring special expenses, through the use of the required special expense form.*

8. The college overpaid a customized training contractor.

A contractor was overpaid $960 while managing customized training. Compensation under the contract was to be fifteen dollars "per semester credit completed and issued by the college." Class lists with student names and grades showed that 17 students withdrew from the classes. This resulted in 64 credits never completed or issued. However, the contractor's invoices requested payment for all students that enrolled, even the students that never completed the classes. The college paid the full amount of the invoices, resulting in an overpayment of $960.

Recommendation

- *The college should review all of its customized training contracts with the vendor and recover any overpayments.*

Chapter 6. Job Skills Partnership Program

Chapter Conclusions

Pine Technical College's internal controls did not provide reasonable assurance that expenditures for the Job Skills Partnership Program were accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. It did not follow MnSCU policies when it paid travel expenses from the program. In addition, the college did not comply with MnSCU contracting procedures and guidelines when establishing contracts for the Job Skills Partnership Program. Finally, the college did not adequately support the amounts reported on some payment requests.

During the audit period, Pine Technical College received Minnesota Job Skills Partnership grants from the state Department of Trade and Economic Development. See Table 6-1 for grants awarded to the college during the audit period.

Table 6-1
Minnesota Job Skills Partnership Grants
Awarded FY 2000 – 2002

Grant Project	Amount
East Central Minnesota Consortium	$ 99,986
Marsden Building Maintenance	399,967
MedAmicus, Inc.	119,952
Raven Machine and Tool	39,721
Retail Consortium	199,998
Virtual Reality	400,000
Spicer	214,000
Total	**$1,473,624**

Note: Grant awards are for multiple years. Expenditures may differ from award amounts in any given year.

Source: Grant agreements with the Department of Trade and Economic Development.

The purpose of the Job Skills Partnership Program is to act as a catalyst between business and education in developing projects that provide training for new jobs or to retrain existing employees. The college partners with a business and together they complete a grant proposal. The college develops a curriculum that it can sell as a credit-based program or as a module to another business. The Minnesota Job Skills Partnership Board approves and awards grants to educational institutions with businesses as partners. The contributing business must match grant funds on at least a one-to-one ratio. The in-kind match is usually facility usage and wages paid to employees during training. DTED, the college, and the contributing business all sign the grant contracts. The maximum grant amount per project is $400,000.

The college submits reports, including reimbursement payment requests, to the board each trimester. The college received reimbursements totaling $793,781 during the audit period. At the end of the grant, an independent CPA firm audits the financial statements for the grant.

Audit Objective and Methodology

The primary objective of our review of the college's Jobs Skills Partnership Program was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that Jobs Skills Partnership revenues and 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, in all material respects, with the significant finance-related legal provisions concerning the Jobs Skills Partnership grants?

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

Conclusions

Pine Technical College's internal controls did not provide reasonable assurance that expenditures for the Jobs Skills Partnership Program were accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. It did not follow MnSCU policies when it paid travel expenses from the program. In addition, the college did not comply with MnSCU contracting procedures and guidelines when establishing contracts for the Jobs Skills Partnership Program. Finally, the college did not adequately support the amounts reported on some payment requests.

The college contracted with an independent CPA firm to audit certain Jobs Skills Partnership grant projects after they were completed. We reviewed the audit reports applicable to our audit period. One audit report cited a potential questioned cost, which the college resolved through grant project staff. Certain projects discussed in the following findings were not completed as of June 30, 2002, and have not yet been audited.

9. The college did not follow proper procedures when it paid travel expenses from the Jobs Skills Partnership Program.

The college did not follow applicable MnSCU system policies when it paid Jobs Skills Partnership Program travel expenses. The contractor attended five out-of-state conferences on behalf of the college during the audit period. All of these trips related to the Jobs Skills Partnership Program Retail Standards grant. The project coordinator for the Retail Standards grant, a college employee, accompanied the contractor on all five trips. The contractor received a total of $3,035 for airfare, lodging, meals, and car rental reimbursements for his costs on these trips. The college employee submitted expense reports to the college for three of the conferences. The college reimbursed the employee a total of $2,108.

The college did not have a contractual agreement with the contractor relating to any of the out-of-state conference trips, including the purpose of the trips, what expenses would be reimbursed, and what funds would be used to pay the expenses. Although there were no contracts in place relating to these trips, correspondence between the contractor and the college customized training manager stated that the contractor went to two of the conferences "as a representative of Pine Technical College." It is important for the college to have formal written contracts with its contractors, so that the rights and responsibilities of each party are protected.

There was no documentation of prior approval for any of the out-of-state trips. MnSCU system procedure 5.19.3 applies to "any other individuals . . . authorized to travel and be reimbursed for allowable expenses in conducting authorized MnSCU business." Part 3 of the procedure requires "written prior approval by an employee who has delegated authority to approve out-of-state travel prior to any travel and the actual incurrence of expenses." The college completed all of the requisitions and purchase orders relating to the travel after it received the invoices from the contractor.

There was insufficient documentation of the travel costs the college paid, including the following:

- The college had no documentation on file of the actual conference dates and agenda, including if any meals were provided as part of the conferences. The contractor subsequently provided agendas for three of the trips. In at least one case, it appears that both the contractor and the project coordinator did not comply with Commissioner's Plan meal reimbursement limits, as required by MnSCU procedure 5.19.3.

- The college also had no documentation on file to verify that either the project coordinator or the contractor used the lowest possible airfare and only stayed the number of days needed to attend the conference. In fact, on two trips, they extended their stay supposedly to take advantage of lower airfares. The college reimbursed expenses for the extended stay. However, there was no documentation that additional expenses paid did not exceed the amount saved on the lower airfare.

- The college had no documentation on file to justify the contractor's rental of a car on one trip. The contractor received reimbursement of $281 for the rental. The contractor drove an average of 80 miles per day. The college stated that the contractor stayed at a time-share apartment that he leased in the area and used the rental car to travel to and from the conference hotel. MnSCU procedure 5.19.3 states that rental of a vehicle is authorized only when the location of meetings is such that use of local transportation is not practical or is expected to be more expensive.

- The college had no documentation on file justifying the employee's extended stay after conference adjournment. On at least one occasion, the employee stayed longer and "did our work out there" after the conference. Although the employee did not take vacation leave for those days, we were unable to determine what college work the employee was doing during the extra travel days.

The contractor accrued unauthorized frequent flyer mileage on at least one trip. The contractor received Northwest WorldPerks miles for his stay at a hotel during a conference. Although the college paid for the hotel stay, it did not earn the frequent flier miles. Minnesota Statute 15.435 requires any benefits issued by an airline to an individual authorized to travel should accrue to the benefit of the public body providing the funding.

Recommendations

- *Contractors should travel on behalf of the college only if the college has a contract in place with the contractor in advance regarding all travel arrangements.*

- *The college should require prior written approval for all out-of-state travel.*

- *The college should require adequate supporting documentation for all travel costs, including those incurred by contractors.*

10. The college did not comply with MnSCU contract procedures and guidelines relating to its Jobs Skills Partnership Program.

The college routinely allowed contractors to provide Jobs Skills Partnership services before completing requisitions, purchase orders, and contracts. On several occasions, the college also encumbered more than the vendor contract amounts.

The college did not obtain final signatures for seven contracts relating to the Jobs Skills Partnership Program until after the contractor provided the services. A contract for $6,000, effective for the period from August 9, 1999, through October 1, 1999, was not fully executed until October 22, 1999. In another case, the effective dates for a contract for writing a grant proposal for the virtual reality project were from July 1, 1999, through December 31, 1999. However, the contract was signed on December 28, 1999, and the contractor's invoice was dated October 26, 1999.

The college also often did not prepare requisitions and purchase orders until after services were provided. During our review of the expenditures included in Jobs Skills Partnership reimbursement requests, we found 21 instances where the college prepared requisitions and purchase orders and encumbered the funds after services were provided. For example, a purchase order in the amount of $8,500 for classes taught March 29 – 31, 2000 was dated May 18, 2000. In another case, a purchase order of $6,000 for training to be conducted from

August 9 – October 1, 1999, was dated September 13, 1999. We could not conclude on the timeliness of requisitions and purchase orders for more recent projects due to the lack of documentation discussed in Finding 11. MnSCU procedure 5.14.2, Part 4, states that the college must encumber funds prior to making an obligation. An authorized employee must certify that the accounting system shows a sufficient allotment or encumbrance in the fund, allotment, or appropriation to meet it.

The MnSCU contract guidelines handbook states that a contract is not valid until all signatures have been obtained. Most college contracts state that they are not effective until the date that the final required signature is obtained. The contracts also state that the contractor shall not begin work until all required signatures have been obtained and the contractor is notified to begin work by the college. The handbook also states that if work begins before a contract is valid, the college is in violation of Minnesota Statute Sec.16A.15, Subd.3. The college must then prepare a form explaining why the obligation was incurred before the contract was encumbered and what corrective action will be taken to prevent this in the future. There was no documentation that the college prepared the required forms. Allowing the contractor to perform services before the execution of the contract or the encumbrance of funds places the state at unnecessary risk. Contract provisions may not apply without a valid contract.

In several cases, the college encumbered more than the contract amounts. For the MedAmicus, Inc. grant, the college prepared a contract for a total of $27,050, but also prepared a separate purchase order for each fiscal year of the contract. The total amount encumbered through the use of purchase orders was greater than the contract total. Total payments to the vendor under this contract were $29,320, resulting in an overpayment of $2,270. In another case, the college was to pay the contractor for semester credits completed and issued by the college to participants of training classes managed by the vendor. Although the contract limit was $50,000, the total amount of the related purchase order was for only $20,000. Payments to the vendor totaled $20,553. In addition, the college continued to pay the vendor under this purchase order through June 2001, even though the contract end date was April 30, 2001.

In some situations, the college encumbered more than the contract amount, but it did not result in an overpayment. For example, the college encumbered $3,248 more than the contracted amount for the Marsden Building Maintenance grant. A contract for $17,320 was in effect during our audit period. Payments under the contract were made during two fiscal years and the college prepared a separate purchase order for each year of the contract. Although the fiscal year 2000 purchase order was prepared for the entire $17,320, the college appears to have only paid $7,578 from that purchase order. Then, during fiscal year 2001, the college prepared a separate purchase order for $12,990, even though the amount left to pay on the contract was only $9,742. In another example, the college made a payment to the contractor from an unrelated purchase order and posted it to the wrong cost center in MnSCU accounting.

We believe that the college's practice of encumbering purchase orders that exceed the amount of the related contracts does not provide adequate fiscal control over the contracts. This practice increases the risk that the college could overpay the vendor.

Recommendations

- *The college should comply with MnSCU contract procedures and guidelines, including ensuring that there is a fully executed contract before allowing contractors to begin work.*

- *The college should ensure that purchase order amounts do not exceed contract amounts and should ensure that payments to vendors do not exceed the contract amounts.*

11. The college did not adequately support the amounts reported on some payment requests.

The college did not retain MnSCU accounting reports to support expenditures reported on some Jobs Skills Partnership payment requests. In addition, the college did not accurately complete some payment requests.

Project managers complete a payment request each trimester reporting allowable expenditures to be reimbursed. Six of fourteen sample items we tested did not have documentation to support the amounts shown on the payment request. We were unable to verify the amount of expenditures reported and determine if the expenditures were allowable.

The college received reimbursement of $10,030 twice. The college included the encumbrance in one payment request and then included the actual expenditure on the next request. It is our understanding that the college can request reimbursement for encumbrances. On the other hand, the college did not always include all eligible costs in the payment requests. Expenditures totaling $12,010 on the accounting report for one trimester were not included in the request. College staff could not explain why these costs had not been included.

Recommendations

- *The college should retain documentation to support all amounts recorded on the payment requests.*

- *The college should ensure that all expenditures are correctly reported on the Jobs Skills Partnership payment requests.*

Chapter 7. Bookstore Revenue

Chapter Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not have adequate procedures for handling return transactions.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenue and cash collections. However, the college did not comply with MnSCU board policies regarding bookstore operations.

Pine Technical College operated a bookstore for the use of its students and faculty. During the audit period, the bookstore employed one part-time clerk. At the beginning of each semester, it also employed one or more work-study students. Occasionally, other employees of the college assisted with bookstore cashiering and other daily duties. The business office has been responsible for all bookstore activities.

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

Students can pay for their purchases with cash, checks, credit cards, financial aid vouchers, and third party charges. The system keeps track of receivables both from the Pine Technical College financial aid office and from the third parties. Bookstore revenue for fiscal year 2002 totaled $255,452. The financial statements for fiscal year 2002 show the bookstore had assets of $72,876. The bookstore had a gross profit of $39,297 and net income of $4,625.

On July 1, 1996, the college entered into a loan agreement with Rochester Community College to borrow $75,000 for the bookstore. The purpose of the loan was to provide cash flow for purchasing textbooks and supplies for sale to students. Payment of the loan was due June 30, 2001. The college renewed the loan on July 1, 2001. The college agreed to repay the original loan of $75,000 plus accumulated interest of $23,022 over a period of five years at an interest rate of 5.5 percent. The college has made the first two annual payments of $22,954 each. The loan balance at June 30, 2002, was $80,459.

Pine Technical College

Audit Objective and Methodology

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

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

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

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

Conclusions

Pine Technical College's internal controls generally provided reasonable assurance that bookstore collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that the college did not have adequate procedures for handling return transactions.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning revenue and cash collections. We also found that the college did not comply with MnSCU Board policies regarding bookstore operations.

12. PRIOR FINDING PARTIALLY RESOLVED: The college bookstore did not have adequate procedures for handling return transactions.

The college did not reconcile the return log to the return transactions recorded on Red Wing, the bookstore accounting system. When students return items, the cashier records the transaction on a return log, having the student sign it. The transaction appears as a negative cash receipt on Red Wing. Return transactions are sensitive transactions because they represent decreases to cash collections. The lack of review of these transactions increases the risk that amounts recorded as returns were inaccurate or inappropriate.

Recommendation

- *The college should reconcile return slips to return transactions recorded on the Red Wing system in order to verify the validity of its negative cash receipts.*

13. The college did not comply with certain MnSCU policies regarding bookstore operations.

The college has not developed a written business plan for its bookstore. MnSCU system procedure 7.3.2, Part 7, requires colleges and universities to maintain a written, multi-year business plan for auxiliary enterprises. The plan is intended to "ensure that adequate but not excessive retained earnings and designated reserves are established and maintained."

The college also does not have written procedures governing the operation of its bookstore. MnSCU system procedure 7.3.2, Part 4, requires the development of procedures to govern the operation of auxiliary enterprises. The procedure recommends that institutional procedures include budgeting and pricing practices and a process to determine uses of any excess balances.

Recommendation

- *The college should develop a written business plan and operating procedures for its bookstore.*

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Chapter 8. Employment and Training Center

Chapter Conclusions

Pine Technical College's internal controls provided reasonable assurance that Employment and Training Center financial activities were properly administered. The college's internal controls provided reasonable assurance that center grant revenues and client aid/service payments were accurately reported in the accounting records and in compliance with applicable legal provisions, including grant requirements and management's authorization. However, the college did not properly sign some client support services checks.

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

Pine Technical College houses an Employment and Training Center. The college recovers the costs of running its center programs through reimbursements from the state and various counties. Total center revenue for the fiscal year ended June 30, 2002, was $3.3 million. Selected revenue that we tested during this audit totaled $3.2 million. Employment and Training Center personnel are employees of the college. The college recovers payroll costs through program reimbursements.

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

Audit Objective and Methodology

The primary objective of our review of the Employment and Training Center was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that Employment and Training Center financial activities were properly administered?

- Did the college's internal controls provide reasonable assurance that Employment and Training Center grant revenues were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

- Did the college's internal controls provide reasonable assurance that client aid/service payments were accurately reported in the accounting records and in compliance with applicable legal provisions, including grant requirements and management's authorization?

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

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

Table 8-1
Employment and Training Center Programs
Fiscal Year 2002

Statewide Minnesota Family Investment Program (S-MFIP)
A statewide welfare reform initiative that expects, supports, and rewards work. The focus is to support working families with the goals being to reduce poverty and dependency on food welfare through employment.

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

Food Stamp Employment and Training Program (FSET)
A program designed to assist food stamp recipients in finding permanent work. This is accomplished by helping participants learn about the world of work by providing workshops and individual case management services.

Childcare funds for Isanti, Mille Lacs, and Pine County
A program that helps participants pay for childcare as they work on their plans for self-sufficiency.

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

Local Intervention Grant for Self-Sufficiency (LIGSS)
The purpose of the programs is to try new strategies to help families move off of MFIP (welfare) and into the workforce through projects such as work/family coaches, worksite mentors, one-on-one employment readiness counseling, transportation projects, and skill development.

Source: Employment and Training Center website and Employment and Training Center management.

Conclusions

Pine Technical College's internal controls provided reasonable assurance that Employment and Training Center financial activities were properly administered. The college's internal controls provided reasonable assurance that center grant revenues and client aid/service payments were accurately reported in the accounting records and in compliance with applicable legal provisions, including grant requirements and management's authorization. However, the college did not properly sign some client support services checks. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning payments to clients.

14. Pine Technical College did not properly sign some client support services checks.

The checks issued from the local account for client support services require two signatures. The dean of fiscal operations and the college president are authorized signers. The dean has a stamp with the president's signature. If the president is not available to sign the checks, the dean uses the stamp. In addition, the stamp is not kept in a secure location. The dean keeps the stamp in a desk drawer that is not secured. The stamp is accessible to the human resources director who uses the dean's office when on campus.

Recommendation

- *The college should ensure that two employees sign all client support services checks. If the college decides two signatures are not necessary, it should work with the bank to change the requirements.*

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Status of Prior Audit Issues
As of June 6, 2003

Most Recent Audits

Legislative Audit Report 00-41, issued in August 2000, covered the college's material activities and programs, including tuition and fees, payroll, supplies and equipment, student financial aid, bookstore operations, and the Employment and Training Center. The report contained 14 findings. We reviewed the status of 12 of the prior findings and found that 9 were resolved. Two findings related to federal student financial aid were not included in the current audit's scope. We have repeated portions of three prior findings in the current report as Findings 2, 4, and 12.

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 part of the financial statement audits, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters. The firm also issued separate management letters as a result of its work on MnSCU's major federal programs, including federal student financial aid.

Pine Technical College contracted with an independent CPA firm to audit certain Minnesota Jobs Skills Partnership Program grant projects. We reviewed the grant project audit reports applicable to our audit period. We discuss the program in more detail in Chapter 6 of this report.

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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PINE TECHNICAL COLLEGE
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August 5, 2003

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Pine Technical College Audit Report for the period July 1, 1999, through June 30, 2002. We have reviewed the audit findings and recommendations and discussed those with our staff and with the staff at the Minnesota State Colleges and Universities System. We offer the College's response to the recommendations as follows:

Finding #1:

Pine Technical College did not comply with certain MnSCU policies regarding its foundation.

Recommendations

- Pine Technical should ensure its foundation submits an external audit at least every three years.
- The college should provide an annual accounting of services provided and expenditures made on the foundation's behalf.

College Response:

Pine Technical College would note that its foundation is relatively new and that it is just reaching the threshold required by MnSCU policy. In 2003 the foundation hired an external CPA firm to conduct an audit. That auditor advised the foundation that it was so small and so recently-organized that a full audit would be excessive and that a compilation would be more appropriate for its size and its needs. The foundation board followed the advice of its CPA, who was not aware of MnSCU Board Policy. Pine Tech and its foundation board agree that an audit is necessary and will pursue that course of action. The foundation felt that it was acting in good faith but erred in not following the letter of the policy, even though it was heeding the advice of its external auditor.

Pine Technical College and its foundation board would further note that we feel the foundation is of enormous value to the college in a number of ways, including community relations as well as fiscal support. The college and the foundation board will conduct a study of support costs provided by the college to the foundation and report the results of that study to MnSCU.

Responsible Staff: Robert L. Musgrove, Ph.D., President; Jan Welsh, Assistant to the President, Kathy Dettinger, Dean of Fiscal Operations

Date Projected for Completion: Spring 2004

<u>Finding #2:</u> The College did not adequately restrict certain computer clearances to the MnSCU accounting accounts receivable functions.

<u>Recommendations</u>

- The college should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.
- If the college is unable to eliminate incompatible access because of staffing limitations, it should develop detective controls, including periodic, independent reviews of the employees' work.
- Pine Technical College should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.

<u>College response</u>

To the greatest extent possible, the college limits access to its computer systems to ensure an adequate separation of duties and to prevent unauthorized access to data. However, due to the limited size of the business office staff, which is smaller than the business office staff of any other MnSCU college with a similar-sized budget, it is necessary for some employees to have incompatible access for back-up purposes. When these employees are required to use this access, an independent review of their work is done by the Dean of Fiscal Operations.

The student advisor who had security rights to accounts receivable has had those rights removed.

Quarterly review of security clearances is conducted by the Deans of Fiscal Operations and Student Affairs.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations; Phil Schroeder, Dean of Student Affairs

Date Projected for Completion: Independent review begun on approximately July 1, 2003.

<u>Finding # 3:</u> The College's documentation was inadequate for some backdated registration transactions and for tuition waivers.

Recommendation:

- The college should maintain proper documentation for backdated transactions, including explanations and approvals.
- The college should develop a written waiver policy that is available to students.

College response

Backdated transactions:
The backdated transactions have to do with the capabilities of ISRS. Currently, the system only allows one drop/add period per term. There are several short courses and customized courses that start and end at times other than the official term start and end dates. Though students are legitimately dropping the course in accord with the scheduled course time frames, all transactions have to be backdated to fit the timeframe of the identified, single drop/add period for the term.

The college will review its procedures for handling backdated transactions to ensure validity of the action and proper documentation, including consistency with ISRS screen ST1124UG – Effective Date Reason Code and related description text boxes.

Tuition Waivers:
The majority of tuition waivers awarded are usually the result of a student registering for a short course (1-4 credits), and, because they do not usually go through the full admissions process, are not aware of the college's drop/withdrawal process. They simply don't go or quit coming, believing that they are then not financially liable. They only become aware of this fact after they are billed. In the case of highly-mobile students, they sometimes don't become aware until MCE has contacted them and/or garnished funds. They then come back to the college to adjust their records and request some sort of relief. In these cases, the Dean researches the case and determines the appropriate action -- usually based on whether the student did attend the class.

The college is currently implementing ways to raise the awareness of this issue among part-time students by several means, including a statement in the part-time registration materials and general course schedule regarding financial commitments, printed flyers, encouraging faculty to promptly report first class "no-shows", and proposing a first class mandatory attendance policy. This has helped reduce these incidents and resulting transactions.

The college will develop a waiver policy consistent with MnSCU Policy 5.12 to include documentation of the appropriate reasons for any waivers. The college will also review its current petition policy to include a process to respond to student' requests for tuition waivers.

Responsible Staff: Phil Schroeder, Dean of Student Affairs

Date Projected for Completion: December 31, 2003

Finding #4: **PRIOR FINDING NOT RESOLVED. The college has an unauthorized rate in its tuition rate table.**

Recommendations

- The college should remove the unauthorized rate from its tuition rate table.
- The college should establish adequate controls to ensure that only tuition rates authorized by the MnSCU Board of Trustees are entered into the accounting system.

College Response:

The rate table in question was detected during the college's last audit in FY2000. At that time, staff took action to delete it from the database. In FY2003, the rate was again reflected in the tuition rate table. Again, staff immediately took action to remove it when it was brought to the college's attention by the staff of the Office of the Legislative Auditor. On further investigation, the MnSCU Office of Internal Audit has discovered that this table is an authorized MnSCU tuition rate table and was originally set up for MSU Moorhead. Neither PTC staff nor the staffs of MnSCU Internal Auditing are certain at present of how this came to be listed among the PTC tables, nor are we sure why efforts to delete it have been unsuccessful.

The college will work with MnSCU Internal Audit, MnSCU Fiscal Operations and the MnSCU Office of Information Technology to determine how to remove the table from PTC's inventory without deleting it from the system.

The college has recently instituted a procedure whereby an independent review of rates entered in the tuition rate table is conducted by the Dean of Fiscal Operations

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations

Date Projected for Completion: September 2003. Annual review of rates entered in tuition rate table will be done beginning with FY2004.

Finding #5: **The College did not timely reimburse its payroll clearing account.**

Recommendation:

- The college should reimburse its payroll clearing account in a timely manner to coincide with the biweekly payroll cycle.

College response

The college made every effort to ensure the payroll clearing account did not have a negative balance and, for the most part, it was successful. During the audit period, the payroll clearing account had an average balance in excess of a positive $2,000. The college is currently reimbursing its payroll clearing account to coincide with the biweekly payroll cycle.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations

Date Projected for Completion: Bi-weekly reimbursement begun on approximately June 1, 2003

<u>Finding #6:</u> The College did not maintain adequate separation of duties over purchasing and accounts payable.

Recommendations:

- The college should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.
- If the college is unable to eliminate incompatible access because of staffing limitations, it should develop detective controls, including periodic, independent reviews of the employees' work.
- The college should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.
- The college should require the actual signature of an authorized person.

<u>College Response:</u>

To the greatest extent possible, the college limits access to its computer systems to ensure an adequate separation of duties and to prevent unauthorized access to data. However, due to the limited size of the business office staff, it is necessary for some employees to have incompatible access for back-up purposes. When these employees are required to use this access, an independent review of their work is done by the Dean of Fiscal Operations.

Quarterly review of security clearances is conducted by the Dean of Fiscal Operations.

Rather than using a stamp, the Dean of Fiscal Operations will actually sign all material requisitions and authorizations for payment.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations

Date Projected for Completion: Signature requirement begun on July 17, 2003

<u>Finding #7:</u> The College's controls over the use of its presidential expense allowance account and other special expenses were inadequate.

Recommendations:

- The college should correctly code presidential expenses as department head expenses on the MnSCU accounting system. Expenses coded to departmental head should be limited to the $5,000 annual allowance.
- The college should document prior approval before incurring special expenses, through the use of the required special expense form.

College Response:

The college notes that it has received somewhat confusing instructions in the past as to the use of various ISRS codes. In finding number three in the1996-1999 audit, the OLA stated that the college should, in dealing with meals and refreshments and presidential search expenditures, "record these expenditures using the object codes for the specific types of expenditures it incurred." Though the interpretation may have been in error, this passage led college personnel to believe that they should code all food to the object code for meals and refreshments, rather than the department head expense object code. The bulk of the discretionary expenditures by the president's office are for meals for various functions, including meetings with legislators, community groups and others.

Secondly, the college would also note that the president's administrative assistant has kept a separate detailed spreadsheet on all expenditures from the cost center each fiscal year in order to ensure that the expense allowance was not exceeded. These spreadsheets were reviewed by MnSCU Office of Internal Auditing (OIA), and the OIA concurs that the College department head expenses were under the $5,000 limit.

The college will work with MnSCU Internal Audit to develop guidelines for the coding of expenses to the department head object code versus other object codes and to insure compliance with MnSCU Board Policy 5.20 on presidential expense allowances. The president's office has already re-coded all expenditures for FY2003.

Responsible Staff: Robert L. Musgrove, Ph.D., President; Jan Welsh, Administrative Assistant

Date Projected for Completion: Completed July 2003

Finding #8: The College overpaid a Customized Training contractor.

Recommendations:

- The college should review all of its customized training contracts with this vendor and recover any overpayments.

College Response:

The overpayment cited in the audit report was due to an error by a college support staff member reading the wrong column of an ISRS grade report. The contractor has been billed and has agreed to repay the overpayment. The college has reviewed its other contracts with this vendor and has determined that no other overpayments occurred.

Responsible Staff: Robert L. Musgrove, Ph.D., President; Jan Welsh, Administrative Assistant to the President

Date Projected for Completion: August 2003

Finding #9: The College did not follow proper procedures when it paid travel expenses from the Job Skills Partnership Program.

Recommendations:

- Contractors should travel on behalf of the college only if the college has a contract in place with the contractor in advance regarding all travel arrangements.
- The college should require prior written approval for all out-of-state travel.
- The college should require adequate supporting documentation for all travel costs, including those incurred by contractors.

College Response:

The college concurs that it should have required prior written approval for out-of-state travel for the contractor as well as employees and will do so in the future. Further, the college will insure that a contract is executed and in place before a contractor is asked to travel on behalf of the college.

To insure that adequate supporting documentation is filed, the college will implement use of a modified local version of MnSCU form SOF 018 on prior approval of out-of-state travel and require attachment of agendas and other information when available in advance. Further, the college will move toward addressing travel and conference expenses in advance and directly with the vendor in all cases where the vendor will accept purchase orders.

Staff Responsible: Kathy Dettinger, Dean of Fiscal Operations

Date Projected for Completion: August 2003

Finding #10: The College did not comply with MnSCU contract procedures and guidelines relating to its Job Skills Partnership Program.

Recommendations:

- The college should comply with MnSCU contract procedures and guidelines, including ensuring that there is a fully executed contract before allowing contractors to begin work.
- The college should insure that purchase order amounts do not exceed the contract amounts and should ensure that payments to vendors do not exceed the contract amounts.

College Response:

The college has implemented, within the last two years, more stringent procedures to insure that contracts and other fiscal documents are executed prior to the start of work or that, where extenuating circumstances prevent this, the appropriate review is conducted and 16-A letters are executed. The work on the MJSP projects cited in the audit report ended in 2000-2001. All subsequent MJSP and other contract training relationships have been conducted in compliance with MnSCU procedures.

The college will adopt a policy and procedure to insure that, particularly for projects which cross fiscal years, purchase order amounts do not exceed contract amounts and, through this, that payments do not exceed purchase orders or contract amounts. The college will adopt a procedure to insure that contract amendments and/or amended purchase orders are executed when legitimate and reimbursable project work may exceed contract or purchase order limits.

Responsible Staff: Robert L. Musgrove, Ph.D., President; Kathy Dettinger, Dean of Fiscal Operations

Date Projected for Completion: September 1, 2003

Finding #11: The College did not adequately support the amounts reported on some payment requests.

Recommendations:

- The college should retain documentation to support all amounts recorded on the payment requests.
- The college should ensure that all expenditures are correctly reported on the Job Skills Partnership payment requests.

College Response:

Working with MnSCU Internal Audit, the college will develop a crosswalk report between ISRS cost center reports and MJSP reimbursement request forms for use by PTC grant project managers and fiscal personnel to document the amounts billed to MJSP. The college will establish an operating procedure to insure closer integration between PTC MJSP project managers and PTC fiscal operations personnel on the development of the reimbursement requests and their submission to MJSP. Further support documentation is already attached to every purchase ordered executed.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations; MJSP project managers

Date Projected for Completion: September 1, 2003

Finding # 12: PRIOR FINDING PARTIALLY RESOLVED. The college bookstore did not have adequate procedures for handling return transactions.

Recommendation:

- The college should reconcile return slips to return transactions recorded on the Red Wing system in order to verify the validity of its negative cash receipts.

College response

The college is currently reconciling return slips to return transactions recorded on the Red Wing system on a daily basis as the bookstore cash drawer is balanced.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations

Date Projected for Completion: Daily reconciliation begun on approximately June 1, 2003

Finding #13: The College did not comply with certain MnSCU policies regarding bookstore operations.

Recommendations:

- The college should develop a written business plan and operating procedures for its bookstore.

College Response:

The college has policies and procedures for the bookstore regarding markup/margin and inventory management. It has operating procedures regarding scheduling and ordering, including non-textbook inventory selection. The PTC bookstore is an extremely small operation. It has one halftime employee and is only open 20 hours per week on average. It is also still paying off a loan from Rochester Community College dating back to the MnSCU merger. The five-year plan for this enterprise is quite simple: make enough money to cover expenses and retire the debt. The opportunities for doing this are also quite limited: textbook sales and some few consumable supplies. College management routinely reviews a profit and loss statement on bookstore operations and has conducted indirect cost studies to determine the level of support given by other college offices to the bookstore.

The college will prepare a plan for its bookstore commensurate with the size of the operation and will formalize its pricing and budgeting procedures.

Responsible Staff: Katherine Dettinger, Dean of Fiscal Operations

Date Projected for Completion: Fall Semester 2003

Finding #14: Pine Technical College did not properly sign some client support services checks.

Recommendations:

- The college should insure that two employees sign all client support services checks. If the college decides two signatures are not necessary, it should work with the bank to change the requirements.

College Response:

The college will examine its level of internal controls to determine if two signatures are necessary. If not, the college will work with the bank to change the requirements. If they are needed, the college will insure that two employees sign all these types of checks.

Responsible Staff: Mary Bucher, Director of the Employment and Training Center; Kathy Dettinger, Dean of Fiscal Operations.

Date Project for Completion: September 1, 2003

Sincerely,

/s/ Robert L. Musgrove

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

C: John Asmussen, MnSCU Office of Internal Auditing
Laura King, Vice Chancellor
Paul Portz, MnSCU Office of Internal Auditing