OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Alexandria Technical College

July 1, 1999, through June 30, 2002

AUGUST 20, 2003 **03-46**

Financial Audit Division

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

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

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

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OFFICE OF THE LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

Dr. James H. McCormick, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Mr. Larry Shellito, President
Alexandria Technical College

We have audited Alexandria Technical College for the period July 1, 1999, through June 30, 2002. Our audit scope included: financial management, tuition and fees, employee payroll, administrative expenditures, enterprise fund activities, and the Minnesota State Grant student financial aid program. Our scope did not include federal student financial aid, which is audited as part of the Minnesota State Colleges and Universities' annual financial statement and federal program 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 Alexandria 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 the Alexandria 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 August 22, 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 19, 2003

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Audit Participation

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

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Exit Conference

We discussed the results of the audit with the following representatives of the Office of the Chancellor and Alexandria Technical College at an exit conference on August 1, 2003:

Office of the Chancellor:	
Laura King	Vice Chancellor – Chief Financial Officer
Tim Stoddard	Associate Vice Chancellor
Denise Kirkeby	Financial Reporting Supervisor
John Asmussen	Executive Director, Internal Auditing
Tracey Gran	Internal Auditor, Internal Auditing
Alexandria Technical College:	
Larry Shellito	President
Jan Mahoney	Chief Financial Officer
Kevin Kopischke	Vice President

Alexandria Technical College

Report Summary

Alexandria Technical College made substantial progress with the overall management of its financial operations since our last audit in fiscal year 2000. During the audit period, the college operated within available resources and, except as noted below, improved its internal control structure, including controls to provide assurance over compliance with applicable legal provisions.

Specifically, we concluded that the college had an adequate process for recording and depositing tuition revenue during the audit period. For payroll activities, the college's controls provided reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that transactions were accurately recorded in the accounting records. The college's controls provided reasonable assurance that the majority of its cash receipts were adequately safeguarded. As noted below, however, the college needs to continue to strengthen its controls over financial operations in certain areas.

Key Findings:

- The college needs to improve its contracting procedures relating to the Alexandria Technical College Foundation and the customized training program. (Finding 1, page 6, and Finding 4, page 13)

- The college did not adequately control its purchasing credit cards. We recommended that college employees provide explanations of unusual transactions, that supervisors approve credit card payments, and that the college follow its procedures regarding allowable and ineligible uses of college purchasing cards or revise its procedures while ensuring it adequately controls credit card expenditures. (Finding 6, page 20)

- The college did not adequately safeguard its food service and DECA store receipts and has not complied with other MnSCU requirements governing its Enterprise Fund activities, such as preparing comprehensive financial statements, business plans, or operating procedures. (Findings 8 and 9, pages 22 and 23)

Alexandria Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, employee payroll, administrative expenditures, enterprise fund activities, and the Minnesota State Grant student financial aid program 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

Alexandria Technical College is one of 34 colleges and universities that make up the Minnesota State Colleges and Universities (MnSCU) system. Alexandria Technical College offers about 45 educational programs to approximately 2,000 students. The college is accredited at the associate degree level by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Larry Shellito is the college president.

The college offers occupational and associate degree programs within a variety of disciplines. The largest programs include law enforcement, practical nursing, diesel mechanics, carpentry, marine/small engine repair, and communication art and design. The college offers unique programs, such as wireless communications, distributed electrical generation technician, and e-commerce. Partnerships with local industries offer students unique and valuable learning experiences. In addition, the college offers customized training courses to the general public and designs educational courses to meet specific industry needs.

The college finances its operations primarily from state appropriations, student tuition, and fees. The MnSCU system office allocates a portion of the system-wide appropriation to its individual colleges and universities based on a formula. Alexandria Technical College, like other MnSCU institutions, retains tuition and other dedicated revenues to finance its operations.

The college is affiliated with the Alexandria Technical College Foundation, a private, nonprofit corporation. The college provided administrative support to the foundation during the audit period. In return, the foundation offered scholarships, college employment, emergency student loans, and other financial support to the college and its students. Annually, a CPA firm audits the foundation's financial statements.

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Chapter 2. Financial Management

Chapter Conclusions

Alexandria Technical College made substantial progress improving the management of its financial activities and strengthening its internal control structure since our last audit. The college's internal controls provided reasonable assurance that financial activities were properly recorded on the accounting systems, that it operated within available financial resources, and in compliance with applicable legal provisions and management's authorization. Although the college continued to have weaknesses over access controls to its business systems during the audit period, it successfully resolved those issues in fiscal year 2003.

Generally, the college had an appropriate operating relationship with its foundation. As discussed in this chapter, however, the college did not formalize the terms and conditions over the foundation's operation of the college bookstore.

Alexandria Technical College has taken various actions to improve its financial management structure since the last audit. The college has reassigned job responsibilities to provide a more effective system of checks and balances over its financial operations. It also improved fundamental financial management controls, such as reconciling key bank accounts, posting financial transactions to the accounting systems in a timely and accurate manner, depositing and recording receipts promptly, and safeguarding the college's assets.

The college continued to improve its internal controls over access to its business systems in fiscal year 2003. In our last audit, we noted that the college did not adequately monitor computer security clearances. The college fully resolved the security access weaknesses mid-way through fiscal year 2003. The college established a periodic review of security clearances, narrowed the scope of authorization based on security access group profiles in the college's various accounting systems, and developed mitigating controls, where necessary.

Alexandria Technical College used the MnSCU accounting system to record financial transactions. MnSCU accounting transactions that impact funds held in the state treasury update the state's primary accounting system through an automated interface. The state's accounting system generates state treasury warrants for state-appropriated expenditures. The college administers certain funds, such as agency accounts and enterprise activities, in a local bank account. The college has the responsibility to ensure that the bank adequately pledges collateral to secure funds held in the college's account against loss.

Alexandria Technical College

Audit Objective and Methodology

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

- Did the college's internal controls provide reasonable assurance that it operated within available resources and that its state treasury and local bank financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?

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

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

Conclusions

Alexandria Technical College made substantial progress improving the management of its financial activities and strengthening its internal control structure since our last audit. The college's internal controls provided reasonable assurance that financial activities were properly recorded on the accounting systems, that the college operated within available financial resources and in compliance with applicable legal provisions and management's authorization.

Generally, the college had an appropriate operating relationship with its foundation. As discussed in Finding 1, however, the college did not formalize the terms and conditions over the foundation's operation of the college bookstore.

1. Alexandria Technical College's contract with its affiliated foundation did not document the terms and conditions for operation of the college bookstore and student center by the Alexandria Technical College Foundation.

In addition to the traditional relationships a MnSCU college has with its foundation, the Alexandria Technical College Foundation operated the college bookstore and the student center in a building owned by the foundation. These unique business arrangements are not specified in the contract between the two organizations. The foundation received the proceeds from the operation of the bookstore and student center. The foundation reimbursed the college for employment costs associated with two college employees who work in the bookstore. According to the foundation's June 30, 2002, financial statements, the college also paid the foundation approximately $19,000 annually to lease parking space. The term of the lease ends June 30, 2005.

Alexandria Technical College

The college and foundation entered into the standard MnSCU contract that established many, but not all, of the responsibilities of each organization. Per the standard contract, the college provided administrative and other support to the foundation during the audit period. Certain of the college's employees provided direct support services to the foundation, mostly on a part-time basis. The foundation's executive director was also a college employee. In return, the foundation provided scholarships, college employment, emergency student loans, and other financial support to the college or its students. Without a legally enforceable contract covering the unique aspects of the operation of the bookstore and student center, however, the college assumes the risk of misunderstandings regarding employment terms and conditions, pricing policies, payment terms, and liability, including insurance and nonperformance of the contract terms.

Recommendation

- *The college should formally document the terms and conditions related to the foundation's operation of the bookstore and student center.*

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Chapter 3. Tuition and Fees Revenue

Chapter Conclusions

Generally, Alexandria Technical College's internal controls provided reasonable assurance that tuition and fee collections were accurately recorded in the accounting records and in compliance with management's authorization. We found, however, the college did not adequately separate duties and manage backdated registrations and tuition deferments, which impacted the safeguarding of assets. Also, the college did not promptly deposit third party payments and did not invoice delinquent contract revenue accounts on a timely basis. Finally, the college did not properly execute customized training income contracts.

For the items tested, the campus generally complied with significant finance-related legal provisions concerning tuition and fees.

Alexandria Technical College offers about 40 occupational and associate degree programs and collects tuition and fees from students enrolled in these programs. The college collected approximately $17 million in tuition, fees, and customized training revenues during fiscal year 2002. The resident and nonresident tuition rates for fiscal year 2002 were $79 and $158 per credit, respectively.

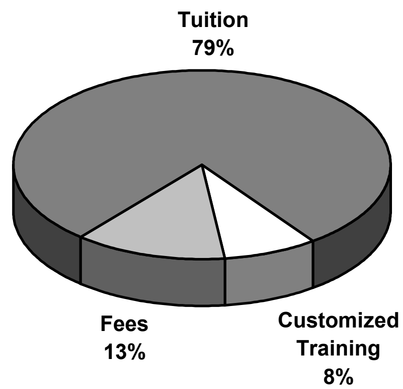
The college uses the Integrated Statewide Record System (ISRS) to register students that enroll in credit-based and continuing education courses. ISRS also assesses charges and tracks accounts receivable. The business office recorded revenues on the MnSCU accounting system.

In addition to credit-based tuition revenue, the college collected revenue for customized training, including continuing education and contract training courses. The college determined tuition rates or established contracts for customized training classes on an individual basis. The college offered continuing education courses to the public and entered into contracts to develop training courses to meet the educational needs of specific businesses or industries. The college used a Microsoft Access database during the beginning of the audit period to track customized training courses and revenue. The college began using the ISRS customized training module in fiscal year 2001.

Alexandria Technical College

Figure 3-1 shows the breakdown of the revenue by type.

Figure 3-1
Tuition and Fees Revenue
Fiscal Years 2000-2002



Source: MnSCU accounting system.

Audit Objective and Methodology

Our review of the college's tuition and fee revenues, including customized training, focused on the following questions:

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

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

To meet these objectives, we interviewed college employees to gain an understanding of the controls over tuition and fees. We assessed risks and performed analytical tests to identify possible unusual trends. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students appropriate tuition and fees, and whether the college properly recorded receipt transactions in MnSCU accounting. We also reviewed bank deposits to determine if the college properly safeguarded and deposited all revenue collections in compliance with applicable legal provisions. Finally, we reviewed the college's procedures for monitoring and collecting outstanding accounts receivable balances.

Conclusions

Generally, Alexandria Technical College's internal controls provided reasonable assurance that tuition and fee collections were accurately recorded in the accounting records and in compliance with management's authorization. As reported in Finding 2, however, the college did not adequately manage backdated registrations and tuition deferments, which impacted the safeguarding of assets. Also, as presented in Finding 3, the college did not promptly deposit third party payments and did not timely invoice delinquent contract revenue accounts. Finding 4 reports on the lack of proper customized training income contracts.

For the items tested, the campus generally complied with significant finance-related legal provisions concerning tuition and fees.

2. Alexandria Technical College had inadequate internal controls over backdated registrations and tuition deferments.

The college did not properly separate duties for authorizing, recording, and reviewing backdated registration transactions. Backdated transactions are high-risk transactions because they allow employees to make changes that affect student account balances. During our audit scope, backdated registrations totaled $460,000. The college allowed the same employees to approve, record, and review the transactions in the accounting system. Four of fifteen items tested were not authorized, and six of fifteen were not independently authorized. In addition, the college did not adequately document backdated transactions. Three of fifteen sample transactions were not documented, and an additional three lacked explanations about the errors. Without a separation of duties between the authorization and recording function, adequate documentation, and an independent review of backdated transactions, there is no assurance that backdated transactions are proper and accurately recorded in the MnSCU accounting system.

We also noted a number of weaknesses with tuition deferments. Deferment transactions are high-risk because they allow employees to make changes that affect when a payment is due.

- Employees who had access to cash also authorized student deferments of tuition and fees. The receipt of cash should be separated from the authority and responsibility of deferring payments.

- The college did not follow its deferment policy requiring a $50 deposit and an 11-day deadline for requesting a deferment. In some cases, the college did not require the student to sign the deferment agreement, which could negatively impact the collectibility of the account.

- The college did not enter deferments into the MnSCU accounting system. The college documented 120 deferments, totaling $107,525, during the period May 2000 to June 2002. Without accurately recording deferments, the completeness and reliability of the accounts receivable system is questionable.

Recommendations

- *The college should improve internal controls for backdated registrations by separating the authorization for backdated registrations from the recording function, maintaining proper documentation, including explanations and approvals, and independently reviewing transactions for propriety.*

- *The college should comply with its policy on tuition deferments, record deferments in the accounting system, and provide for an independent review of the transactions.*

3. The college did not promptly deposit some incoming receipts or timely invoice delinquent contract revenue accounts.

The college did not promptly deposit some checks received from third party payers. The college held the checks until a receivable to the third party payer was established in the accounting system. Typically, the college established the receivable on a weekly basis. Rather than depositing these checks into a temporary suspense or clearing account, the college held them until a receivable was established in the accounting system. Minn. Stat. Section 16A.275 requires that state agencies daily deposit receipts totaling $250 or more in the state treasury. The risk of loss increases when checks are not promptly deposited.

The business office did not record the date payments were received in the mail. Therefore, it could not demonstrate compliance with the statutory requirements for promptly depositing mail receipts.

Finally, the college did not bill it customers for delinquent contract revenue accounts on a timely basis. Customized training staff promptly sent customers an invoice for contract-training courses after the college negotiated the rates with the businesses. However, for customers that had past due accounts, the college did not send a second invoice until six months after the first invoice. April 2002 provides an example of the college's invoices for both current and delinquent accounts receivable for contract training courses, which totaled $35,000 for that billing cycle.

Recommendations

- *The college should set up a suspense account in the MnSCU accounting system to deposit incoming receipts from third parties if the account has not been established in the accounting system.*

- *The college should record the date when payments are received in the mail.*

- *The college should bill delinquent contract revenue accounts on a timely basis.*

4. Alexandria Technical College did not properly execute customized training income contracts.

The college did not have fully executed contracts with businesses for customized-training contract courses. For 11 of 20 contract revenue transactions tested, the college established contracts but did not formally execute the contracts. These contracts lacked authorized signatures. In another instance, the college substituted a request for proposal for a contract. The college signed the proposal, but the business did not, and the proposal did not address all of the required terms and conditions of a standard contract. Without properly executed contracts, the college increases the risks that the terms and conditions of its agreements cannot be enforced.

Recommendation

- *The college should properly execute customized training income agreements with contract businesses.*

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Chapter 4. Employee Payroll Expenditures

Chapter Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization.

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

Payroll is the largest expenditure category for Alexandria Technical College. The college's fiscal year 2002 payroll expenditures, including fringe benefits, totaled about $13.5 million. In fiscal year 2002, the college employed about 300 faculty and 100 staff employees. College employees belonged to the following compensation plans:

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

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

The college maintained separate human resources and payroll offices. Human resources employees entered all new employee data and input personnel and salary changes directly to employee records in SCUPPS. The payroll clerk received timesheets from classified employees and excluded administrators, entered the payroll information into SEMA4, and ensured the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system. Faculty members did not prepare timesheets; rather, they only reported leave taken.

Alexandria Technical College

Audit Objective and Methodology

Our review of employee payroll focused on 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?

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

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

Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization.

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

Chapter 5. Administrative Expenditures

Chapter Conclusions

Generally, Alexandria Technical College's internal controls provided reasonable assurance that expenditures for goods and services were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, the college did not adequately monitor purchasing card activity and did not comply with its purchasing card policy. Also, the college did not adequately restrict access to its receiving and storage facility. Finally, the college did not retain documentation supporting the physical inventory of noncomputer equipment taken in 2000.

For the items tested, the college complied with finance-related legal provisions.

The college's administrative expenditures totaled about $5.8 million in fiscal year 2002. Table 5-1 provides a breakdown for the fiscal year 2002 administrative expenditures included in our audit scope.

Table 5-1
Selected Administrative Expenditures
Fiscal Year 2002

Expenditure Type	Amount
Supplies	$2,620,045
Purchased Services	906,225
Equipment	838,818
Consultant/Contract Services	231,203
Total	$4,596,291

Source: MnSCU accounting system.

When purchasing goods or services, college departments submit a paper or electronic purchase requisition to the purchasing agent of the college. The purchasing agent assists the department in complying with applicable contract and bidding requirements and assures the availability of funds in the appropriate cost center by initiating an encumbrance in the MnSCU Purchase Control System (PCS). Using PCS, the purchasing agent generates a purchase order and sends it to the vendor. In addition, the college also allows certain purchases to be made on purchasing cards that are issued to eligible employees.

For purchases of goods, the college specifies that vendors ship goods to a designated receiving location. For a portion of the audit scope, goods were delivered to a rented facility located near the airport. The facility was used until construction was finished on a new facility nearer the college. College maintenance workers deliver the goods to the person requesting the goods or services who then signs a copy of the purchase order to document receipt. The business office matches the invoice, purchase order, and receiving documentation and then processes the payment on the MnSCU accounting system.

College employees can also purchase goods by using a college-approved credit card. The purchasing cards had individual account numbers and were issued jointly in the name of Alexandria Technical College and the name of each eligible employee. The college was invoiced directly for the periodic outstanding balance of all purchasing card activity. Employees received a separate statement that provided transaction detail on credit card activity that period.

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

MnSCU policies require that institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000. Alexandria Technical College tracks equipment with a cost over $2,000 and all computer items, regardless of cost, on the MnSCU accounting system equipment module.

Audit Objective and Methodology

Our audit of administrative expenditures focused on 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 significant finance-related legal provisions concerning administrative expenditures?

To answer these questions, we interviewed employees to gain an understanding of the purchasing and disbursing process. We reviewed the process the college used to ensure it received goods and services before making payment. We reviewed a sample of expenditures to determine if the college complied with applicable policies and legal provisions. We also reviewed the college's process to record, track, and safeguard fixed assets. In addition, we reviewed the college's process for monitoring its purchasing card activity.

Conclusions

Generally, Alexandria Technical College's internal controls provided reasonable assurance that expenditures for goods and services were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization. However, as noted in the findings below, the college did not adequately monitor purchasing card activity, did not adequately restrict access to its receiving and storage facility, and did not retain documentation supporting the physical inventory taken in 2000.

5. Alexandria Technical College did not adequately monitor purchasing card activity.

As authorized by MnSCU Procedure 7.3.3 regarding credit cards, the college allowed eligible employees to make certain purchases using its institutional credit card program. The college incurred about $236,000 in purchasing card expenditures between July 2000 and June 2002. Over 40 college employees have been issued purchasing cards. While auditing this activity, we found a lack of supervisory reviews or approvals, inadequate explanations supporting the business purpose of certain expenditures, and noncompliance with the college's purchasing card policy.

We identified the following weaknesses during our review of the fiscal years 2001 and 2002 purchasing card statements:

The college allowed purchasing cardholders, including the person in charge of monitoring the credit card statements, to approve payment of their own statements. We also noted inadequate explanations for the business purpose of several unusual transactions including a charge of $466 at a resort in Minnesota, and charges totaling $170 made in France among other payments

- In violation of its policy on unallowable transactions, various college employees used their credit cards for approximately $7,600 in airfare and Amtrak charges, $1,500 in car rentals, $945 in food purchases, and $731 in gasoline charges for state owned or personal vehicles. In one instance, the college did not detect that an employee requested and received reimbursement for $60 in college-related hotel charges that had also been directly paid through the college's purchasing card program. Also, the college regularly processed purchasing card payments without evidence of pre-approval when its purchasing card policy requires that all purchases be pre-approved.

- In one instance, we found that an employee borrowed another employee's purchasing card to make a college-related purchase costing $590.

By not properly monitoring purchasing card activity, the college risks having employees reimbursed for ineligible or unallowable expenses.

Recommendations

- *The college should obtain explanations on questionable transactions we identified during the audit to determine the business purpose for the expenditure. The review should also include purchasing card activity that occurred in fiscal year 2000.*

- *The college should improve it purchasing card monitoring by requiring that employees provide explanations for unusual credit card purchases and that supervisors authorize employee requests for credit card payments.*

- *The college should enforce its policy on allowable purchasing card transactions or revise the policy while ensuring that it provides adequate control over purchasing card expenditures.*

6. Alexandria Technical College did not adequately restrict access to the college's receiving and storage facility.

The college gave four keys to various local delivery company employees so they could access the college's receiving and storage facility when college employees were not available to unlock the facility. The college used the facility to store ammunition for the Law Enforcement Program, computers, textbooks, office equipment, and supplies. By allowing noncollege employees unrestricted access to its receiving and storage facility, the college increased the risks that items could be stolen.

Recommendation

- *The college should restrict access to its receiving and storage facility.*

7. Alexandria Technical College did not retain documentation supporting its physical inventory of non-computer equipment taken in 2000, and the college did not attach state inventory tags to multiple pieces of equipment.

Alexandria Technical College could not produce evidence that it completed a physical inventory of non-computer equipment in 2000 or that the inventory results had been reviewed and corrected. We did receive evidence that the college performed annual inventories of its computers. During our testing, we examined 30 non-computer fixed assets located throughout the college and found that 13 assets had not been marked with a state inventory tag. Also, as of the end of our fieldwork, it had been nearly three years since the college completed a physical inventory of non-computer equipment. The draft Minnesota State Colleges and Universities Procedure (7.3.6 Fixed Assets) states that a physical inventory of all assets with an acquisition cost or value of $10,000 or greater shall be completed on an annual basis, and all other items completed on a cycle of no less than every three years.

The college increases the risk that lost or stolen fixed assets would not detected in a timely manner without taking routine periodic physical inventories.

Recommendation

- *The college should perform a physical inventory on a routine basis, attach inventory tags, and retain the documentation for management and verification purposes.*

Chapter 6. Enterprise Fund Activities

Chapter Conclusions

The college did not adequately safeguard its food service and DECA (Distributive Education Clubs of America) store receipts. In addition, the college did not comply with MnSCU's procedures governing the financial management of its auxiliary operations.

Alexandria Technical College accounts for several activities, including food service and the DECA store operations, within its Enterprise Activity Fund. The college is required to account for these activities like a business enterprise.

Food Service Operations

The college's food service operates the college's cafeteria and caters internal and external events. During the audit period, the college employed a manager and six employees to staff the food service. For fiscal year 2002, food service had sales of approximately $358,000. The food service used one or two cash registers for the cafeteria, depending on the level of campus activity. At the end of the day shift, food service personnel forwarded the receipts to the business office.

DECA (Distributive Education Clubs of America) Store Operations

Alexandria Technical College's DECA store primarily sells apparel and supplies. The college employed a manager and a part-time employee to run the DECA operations. For fiscal year 2002, the DECA store had sales of about $239,000. The college used one cash register to account for sales. The store manager entered cash, checks, credit card sales, and internal charges into the cash register. The manager summarized the sales and forwarded the receipts to the business office daily. A tuition accountant in the business office compared the sales summary to the receipts collected and prepared the bank deposit.

Audit Objective and Methodology

The primary objective of our audit of food service and DECA store operations was to answer the following questions:

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

- Did the college comply, in all material respects, with the significant finance-related legal provisions concerning food service and DECA store deposits?

To answer these questions, we interviewed food service, DECA store and business office staff to gain an understanding of the operations. We tested a sample of receipt transactions to determine if the college accurately deposited and recorded the receipts in the accounting system and complied with finance-related legal provisions.

Conclusions

The college did not adequately safeguard its food service and DECA store receipts as discussed in Finding 8. In addition, as noted in Finding 9, the college did not comply with MnSCU's policy for auxiliary operations.

For the items tested, the college complied with the significant finance-related legal provisions concerning food service and DECA store operations.

8. Alexandria Technical College's controls over its food service and DECA store receipts need improvement.

Our audit of the college's auxiliary enterprises found that the business office did not provide the management of the food service or DECA store with documentation to verify that their receipts were accurately recorded in MnSCU accounting and deposited in the bank. Absent this key internal control, the college cannot be assured that food service and DECA store receipts were not lost, stolen, or properly accounted for.

Our review of the food service also disclosed the following weaknesses.

- The food service did not adequately secure its cash register drawers. During fieldwork, we observed that cash registers were unlocked and unattended at various times during the day. On evenings when the cafeteria closed after business office hours, the cash register drawer used for evening sales was placed in an unlocked kitchen drawer in the backroom of the food service area because the business office safe was not accessible. Although a locked door and a gate secured the room, seven employees had keys to this area.

- Food service employees lacked accountability for collecting cash and recording sales. The food service used cash registers to collect sales in the form of cash or checks. We noted that up to seven food service staff could enter sales and collect cash during the day. Per college policy, only assigned cashiers are supposed to operate the cash register.

- The food service did not verify daily receipts to cashier records. The food service manager did not count the receipts before forwarding them to the business office. A tuition accountant in the business office counted the cash, prepared the cash summary and bank deposit, and entered the amounts into MnSCU accounting.

The college increases the risk of theft or loss when receipts are kept outside of a safe at night, when an excessive number of employees have access to cash, and when accountability is not established when cash is received.

Recommendations

- *The college's business office should provide the managers of the food service and the DECA store with documentation to verify the deposits recorded in MnSCU accounting.*

- *The college's food service personnel should:*

  -- *limit the number of employees who have access to cash registers;*
  -- *secure receipts in its cash register drawers during the day and at night; and*
  -- *reconcile receipts collected to daily sales reports prior to submitting receipts to the business office.*

9. Alexandria Technical College did not comply with certain MnSCU procedures regarding financial management of its auxiliary enterprise activities.

Alexandria Technical College did not prepare multi-year business plans, comprehensive financial statements, or operating procedures for its food service and DECA store as required by MnSCU Procedure 7.3.2. Each of these requirements is intended to ensure that the college effectively and efficiently manages its auxiliary enterprises.

The college had not prepared the multi-year business/finance plans required by MnSCU Procedure 7.3.2, Part 7. The procedure states, "Colleges … are responsible for ensuring the programmatic and fiscal soundness of their auxiliary enterprises and maintaining a written multi-year finance/business plan." Part 5 of the procedure also requires colleges to prepare financial statements in accordance with generally accepted accounting principles for any auxiliary enterprise with annual activity in excess of $50,000. Although the college used MnSCU accounting reports to analyze the financial operations of the food service and DECA store, those reports do not incorporate cost of goods sold for these activities. Preparing financial statements provides a college with complete and accurate financial information necessary to measure the financial performance of its enterprise activities and to make informed business decisions.

The college also did not develop procedures to govern the operation of its auxiliary enterprises as required by MnSCU Procedure 7.3.2, Part 4. The policy recommends that the procedures include budgeting and pricing practices.

Recommendation

- *The college should prepare a written multi-year finance/business plan, comprehensive financial statements, and operating procedures for its auxiliary enterprise activities in accordance with MnSCU procedures.*

Chapter 7. Minnesota State Grant Program

Chapter Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that the Minnesota State Grant Program financial aid grant disbursements 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 disbursements of state grant funds.

The college participated in various student financial aid programs administered by the U.S. Department of Education (federal) and the State of Minnesota. (MnSCU contracted with a CPA firm to audit federal financial aid.) Our audit covered the Minnesota State Grant Program. The Minnesota Higher Education Services Office (MNHESO) administers the Minnesota State Grant Program. MNHESO reimburses the college for eligible grant disbursements to students. The college packages the state grant along with federal financial aid. The college disbursed approximately $1.1 million in grants for this program during fiscal year 2002.

Audit Objectives and Methodology

Our audit of the Minnesota State Grant Program focused on the following questions:

- Did the college's internal controls provide reasonable assurance that it properly recorded state grant financial activities in the accounting system and managed its state grant program in compliance with applicable laws and regulations?
- Did the college comply with material finance-related legal provisions governing the state grant program?

To address these objectives, we interviewed college staff to gain an understanding of the internal control structure, reconciled MNHESO awards and disbursements in total to the college's accounting systems, and tested eligibility criteria and disbursements for a sample of students.

Conclusions

Alexandria Technical College's internal controls provided reasonable assurance that Minnesota State Grant Program financial aid grant disbursements 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.

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Status of Prior Audit Issues
As of June 6, 2003

Most Recent Audits

Office of the Legislative Auditor College Audit

Legislative Audit Report 00-43, issued in September 2000, covered material financial activities of the college for the period July 1, 1996, through December 31, 1999. The college resolved the 12 findings contained in that audit report.

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 on the financial statements for fiscal years 2001 and 2002. As a part of the audit, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters, including the administration of federal programs. The fiscal year 2001 management letter contained 13 comments, and the fiscal year 2002 management letter contained 7 comments. The management letters did not specifically mention Alexandria Technical College.

State of Minnesota Audit Follow-Up Process

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

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Alexandria
• TECHNICAL COLLEGE •
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www.alextech.org

August 14, 2003

Mr. James Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Alexandria Technical College for the period July 1, 1999 through June 30, 2002.   We are pleased that the report noted sound fiscal management.

My thanks to your staff for the professional manner in which the audit was conducted. Responses to the findings are attached.

Sincerely,

/s/ Larry W. Shellito

Larry W. Shellito
President

RESPONSE TO OLA FINDINGS & RECOMMENDATIONS
ALEXANDRIA TECHNICAL COLLEGE
AUGUST 14, 2003

1. **The college should formally document the terms and conditions related to the foundation's operation of the bookstore and student center.**
   The college will prepare an addendum to the contract addressing terms and conditions of the foundation's operation of the bookstore and student center.

2. **Alexandria Technical College had inadequate internal controls over backdated registrations and tuition deferments.**
   Authorization and recording functions of backdating registrations will be separated, documented and reviewed. The current tuition deferment system works well for the college without interfering with the completeness and reliability of the of the accounts receivable system. It allows for close monitoring of payment plan agreements. The college will record deferments on the MnSCU accounting system on a trial basis to determine cost effectiveness. All deferments will be independently reviewed at the commencement of each semester for propriety.

3. **The college did not promptly deposit some incoming receipts or timely invoice delinquent contract revenue accounts.**
   Corrective action has already been taken. Third party payments are now applied on a daily basis allowing for the customized training receipts in question to be deposited daily. All incoming checks and registrations continue to be date stamped. Customized training contract receivables are being billed on a monthly basis.

4. **Alexandria Technical College did not properly execute customized training income contracts.**
   Corrective action has already been taken. All contracts are being executed with proper signatures in the proper format.

5. **Alexandria Technical College did not adequately monitor purchasing card activity.**
   The college's revised purchasing card policy will allow a broader scope of allowable transactions while ensuring proper controls. Employees will be required to provide business purpose explanations if deemed necessary. Supervisors or managers will authorize employee's credit card statements for payment.

6. **Alexandria Technical College did not adequately restrict access to the college's receiving and storage facility.**
   Access to the receiving and storage facility will be restricted.

7. **Alexandria Technical College did not retain documentation supporting its physical inventory of non-computer equipment taken in 2000, and the college did not attach state inventory tags to multiple pieces of equipment.**
   The college will complete a physical inventory of non-computer assets with an acquisition cost or value of $10,000 or greater on an annual basis. The college will continue performing a physical inventory of all computer equipment on an annual basis. All other items will be verified on a cycle of every three years as determined by MnSCU policy and procedure.

8. **Alexandria Technical College's controls over its food service and DECA store receipts need improvement.**
   The number of food service cashiers will be limited. Receipts will be secured at all times. Receipts will be reconciled to daily cash reports prior to depositing cash with the business office. Business office staff will provide managers with verification of deposits on a daily basis.

9. **Alexandria Technical College did not comply with certain MnSCU procedures regarding financial management of its auxiliary enterprise activities.**
   The college will comply with MnSCU procedure 7.3.2.