



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

**Minnesota State Colleges and
Universities**
Fiscal Years 2003 - 2005



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.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

To obtain a copy of this document in an accessible format (electronic ASCII text, Braille, large print, or audio) please call 651-296-1235. People with hearing or speech disabilities may call us through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

All OLA reports are available at our web site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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

Board of Trustees
Minnesota State Colleges and Universities

We have audited selected financial activities of seven colleges of the Minnesota State Colleges and Universities (MnSCU) system. The individual colleges we audited included Alexandria, Anoka, and Dakota County Technical Colleges, North Hennepin Community College, Northland Community & Technical College, South Central College, and Saint Paul College. Each of the audits covered a three-year period ending June 30, 2005.

Our audit scope at these colleges was limited to security over access to financial applications, tuition and fee revenues, payroll, and administrative expenditures. In addition we examined bookstore operations at Anoka and Dakota County Technical Colleges and Saint Paul College. We emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff from the individual colleges for their cooperation during this audit.

/s/ James R. Nobles

/s/ Cecile M. Ferkul

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 31, 2006

Report Signed On: October 13, 2006

Minnesota State Colleges and Universities (MnSCU)

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Security Access to Financial Applications	7
Chapter 3. Tuition and Fees	11
Chapter 4. Employee Payroll	19
Chapter 5. Administrative and Operating Expenses	25
Chapter 6. Bookstore Operations	29
Status of Prior Audit Issues	33
Agency Response	37

Exit Conference

We discussed the results of the audit with the following staff of MnSCU at an exit conference on October 4, 2006. We also met with representatives of the individual colleges to discuss the audit results at the conclusion of our fieldwork.

Laura King	Vice Chancellor, Chief Financial Officer
Tom Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Beth Buse	Deputy Director, Internal Auditing
Marita Hickman	Regional Audit Coordinator, Internal Auditing
Jan Mahoney	Chief Financial Officer, Saint Paul College
Kevin Kopischke	President, Alexandria Technical College
Dave Bjelland	Chief Financial Officer, Alexandria Technical College
Julie Fenlason	Accounting Supervisor, Alexandria Technical College
Joan Stich	Accounting Supervisor, Alexandria Technical College

Minnesota State Colleges and Universities (MnSCU)

Audit Participation

The following members of the Office of the Legislative Auditor audited the colleges included in our scope and contributed to the preparation of this report:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
--------------------------	----------------------------

Alexandria Technical College:

Jim Riebe, CPA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Xin Wang	Auditor
Jennifer Chapin	Auditor

Anoka Technical College:

Dave Poliseno, CPA, CISA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Tesfaye Negash	Auditor
Thom Derus	Auditor

Dakota County Technical College:

Brad White, CPA, CISA	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Tim Rekow	Auditor
Xin Wang	Auditor

North Hennepin Community College:

Tom Donahue, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Carl Otto, CPA, CISA	Auditor
Jennifer Chapin	Auditor

Northland Community & Technical College:

Tom Donahue, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor
Melanie Greufe	Auditor

Saint Paul College:

Tom Donahue, CPA	Audit Manager
Mike Hassing, CPA, CISA	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
Melanie Greufe	Auditor

South Central College:

Brad White, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Patrick Phillips, CPA	Auditor
Thom Derus	Auditor

Report Summary

Key Conclusions:

The seven colleges of the Minnesota State Colleges and Universities (MnSCU) system included in our scope generally safeguarded assets and correctly recorded financial activity for the selected financial areas we examined. With certain exceptions, these colleges complied with significant MnSCU policies and management's authorization for tested transactions. As highlighted in the next section, we have several concerns related to internal controls and compliance with financial legal provisions.

Key Findings:

- Some colleges did not separate incompatible financial duties among their staff, and mitigating controls have not been defined and assessed for effectiveness. (Finding 1, page 8)
- One college charged unapproved tuition rates, and some colleges did not use waiver transactions appropriately or pursue delinquent receivables. (Findings 2 - 4, pages 12 - 14)
- Customized training personnel assignments were untimely or not documented at two colleges, and one college miscalculated severance payments. (Findings 10 and 12, pages 20 - 22)
- Several colleges had internal control weaknesses with procuring, documenting, and recording of various expenses. (Finding 15, page 26)

The audit report contained 17 findings relating to internal control or legal compliance issues, including some prior findings.

Audit Scope:

Selected Colleges

- Alexandria Technical College
- Anoka Technical College
- Dakota County Technical College
- North Hennepin Community College
- Northland Community & Technical College
- South Central College
- Saint Paul College

Audit Period:

Fiscal Years 2003 - 2005

Selected Audit Areas:

- Security Access to Computerized Financial Applications
- Tuition and Fees
- Employee Payroll
- Administrative Expenditures
- Bookstore (certain colleges only)

Agency Background:

MnSCU's Office of the Chancellor provides system-wide administrative management and develops policies for 32 state universities and colleges. The MnSCU Board of Trustees appoints a president to oversee the activities at each college. The colleges finance their operations from state appropriation allocations and tuition. MnSCU had a total student full-year equivalent enrollment of 135,494 for fiscal year 2005, a slight decrease from fiscal year 2004.

Minnesota State Colleges and Universities (MnSCU)

This page intentionally left blank.

Chapter 1. Introduction

The Minnesota State Colleges and Universities (MnSCU) system contracts with the Office of the Legislative Auditor to provide selected internal control and compliance audits of the Office of the Chancellor and the colleges and universities that comprise MnSCU. This audit work supplements the annual financial statement audits of the MnSCU system and certain colleges and universities conducted by certified public accounting firms.

Together with MnSCU management, we used various criteria to determine the specific financial activities included in the scope of our work and the MnSCU entities we audited. Those criteria include the size and type of each entity's financial operations, length of time since the last audit, whether the college had been subject to financial statement audit coverage, changes in organizational structure and key personnel, and available audit resources.

This year, we audited selected financial activities of the following seven colleges:

- Alexandria Technical College
- Anoka Technical College
- Dakota County Technical College
- North Hennepin Community College
- Northland Community & Technical College
- South Central College
- Saint Paul College

We limited our audit scope to security over access to computerized accounting applications, tuition and fee revenues, payroll, and administrative expenditures covering the three-year period ending June 30, 2005. We also examined bookstore operations at certain campuses where we had previously reported weaknesses. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions. We emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges.

MnSCU Overview

The Minnesota State Colleges and Universities (MnSCU) system is comprised of 32 state universities, community colleges, and technical colleges and the Office of the Chancellor. *Minnesota Statutes* 2005, chapter 136F, assigns to the MnSCU Board of Trustees the powers necessary to govern the state colleges and universities. The Office of the Chancellor employs staff to provide services to all colleges and universities within the system. Chancellor James H. McCormick began his term in July 2001.

The Office of the Chancellor is responsible for providing the overall management and direction of the MnSCU system. It reviews and coordinates educational programs, oversees the credit

Minnesota State Colleges and Universities (MnSCU)

transfer process, negotiates labor contracts, and administers system-wide financial management operations. The Office of the Chancellor carries out policies of the Board of Trustees, conducts presidential searches, communicates with the public and the media about MnSCU, and represents the colleges and universities at the Legislature.

The Office of the Chancellor provides support to colleges and universities in the areas of budgeting, financial reporting, facilities management, information technology, student loan servicing, and faculty professional development. The office charges the colleges for the cost of some centralized services.

The MnSCU Board of Trustees appoints presidents to lead and manage individual colleges. Each college offers students a wide range of educational opportunities that include technical and career programs, as well as liberal arts, education, business, and other specialized curriculums.

All of the colleges use the MnSCU accounting system to process and record financial activities. The MnSCU accounting system interfaces with the state's accounting system to generate payments from the state treasury. The Office of the Chancellor also requires that all colleges use the MnSCU accounting system to account for money maintained outside of the state treasury. The colleges often administer these funds in local bank accounts. The colleges use the MnSCU Integrated Statewide Record System for student registration.

Budgetary Controls

The colleges finance their operations from state appropriation allocations and tuition. The Office of the Chancellor allocates appropriated funds to the individual colleges. The colleges retain their tuition and other receipts to arrive at their total authorized spending level.

Once the colleges determine their authorized spending levels, they establish spending budgets for the various administrative areas and academic departments. The colleges designate individual cost centers for each department or office to monitor their budget status. College management monitors projected versus actual student enrollment to ensure that the institution will operate within its spending budget. MnSCU has a policy concerning maintenance of reserve balances which is part of the overall budget formula. MnSCU's Annual Financial Report provides additional information on its financial operations.

Table 1-1 provides background information on the individual colleges audited.

Minnesota State Colleges and Universities (MnSCU)

**Table 1-1
Selected College Information
Fiscal Year 2005**

College	Student FYE ⁽¹⁾	Faculty FTE ⁽¹⁾	Staff/ Administrators FTE ⁽¹⁾	Total Operating Revenue ⁽²⁾ (in 000's)	Total Operating Expenses (in 000's)
Alexandria	2,145	98	95	\$21,631	\$22,200
Anoka	1,559	88	66	\$17,285	\$16,377
Dakota County	2,245	101	114	\$25,057	\$25,779
North Hennepin	4,283	130	133	\$32,088	\$30,705
Northland ⁽³⁾	2,785	157	98	\$27,423	\$28,795
South Central	2,514	131	123	\$26,172	\$26,590
Saint Paul	3,012	142	113	\$28,575	\$29,329

Note 1: FYE refers to the number of full-year equivalent students and FTE refers to full-time equivalent positions.

Note 2: Total operating revenue includes tuition collections and state appropriations allocated to each college.

Note 3: Northland Community & Technical College balances included financial activities of the East Grand Forks campus, effective July 1, 2004. The East Grand Forks campus was previously aligned with Northwest Technical College.

Source: Financial information obtained from the MnSCU Supplement to the Annual Financial Report for the year ended June 30, 2005, Statement of Revenues, Expenses, and Changes in Net Assets (unaudited) schedules. Other data was obtained from MnSCU Accounting and MnSCU's Budget Division and Human Resources Division web sites.

Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of each entity's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission,¹ as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that each entity complied with financial-related legal provisions that are significant to the audit. In determining each entity's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of MnSCU's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting each entity's internal controls and compliance with laws, regulations, and contract provisions.

Chapters 2 through 6 discuss the conclusions from our audit work. The report includes findings related to internal control and legal compliance issues. Some findings were relevant to only one college; others were applicable to several colleges.

¹ The Treadway Commission and its Committee of Sponsoring Organizations (COSO) were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent fraud and inappropriate financial activity.

Minnesota State Colleges and Universities (MnSCU)

This page intentionally left blank.

Chapter 2. Security Access to Financial Applications

Chapter Conclusions

MnSCU designed its computerized systems with preventative security controls; however, some colleges have not separated incompatible financial duties among their staff. The colleges provided their staff with computer access to financial functions that allow them exclusive control over particular transactions, and the college relied heavily on other detective controls to mitigate risk. However, the colleges we reviewed did not document detective controls in written guidelines, and many did not have evidence to substantiate that they performed the control. MnSCU has not adequately defined detective control expectations or assessed their effectiveness.

Audit Objective

Our audit of computer system access focused on the following question:

- Did college controls provide reasonable assurance that access to MnSCU's computerized financial applications, including the MnSCU accounting and personnel systems, was adequately restricted and periodically monitored?

Background Information

MnSCU developed its Integrated Statewide Record System to support its business operations. The computerized system consists of several modules, including purchasing, accounting, human resources, and student registration, among many others. All of the colleges use the MnSCU accounting system to initiate and record financial transactions. The colleges use MnSCU's State Colleges and Universities Personnel and Payroll System for personnel transactions. The MnSCU accounting system and its personnel and payroll system interface with the state's accounting system and the state's payroll system.

The Office of the Chancellor and individual colleges share the responsibility to protect the integrity of MnSCU's critical business systems and personnel data. The Office of the Chancellor develops and maintains security profiles for its business systems. Each college determines and assigns the profiles needed by its employees to do their work. During the past year, the Office of the Chancellor developed user groups to review and revise its security profiles for tuition and accounts receivable and personnel and payroll functions to segregate duties and to identify which profiles, if used in combination, result in an employee having access to incompatible functions. The Office of the Chancellor continues to review and revise profiles for the purchasing and accounts payable functions.

Minnesota State Colleges and Universities (MnSCU)

When colleges avoid assigning incompatible profiles to employees, they prevent an employee from handling a financial transaction from beginning to completion without the involvement of other staff. However, due to staffing limitations, some colleges are unable to avoid assigning employees incompatible profiles. In these situations, the college needs to have controls that will detect errors or irregularities, should they occur. These detective controls typically involve after-the-fact reviews of the employee's work and tracing of recorded transactions to supporting evidence.

Finding and Recommendation

1. Certain colleges did not ensure that access to computerized business systems was adequately restricted and did not define mitigating detective controls.

Northland Community and Technical College authorized employees to have access to MnSCU's financial systems beyond what was needed to perform their assigned duties. The college had 17 employees at its two campus locations with unnecessary ability to update tuition and registration records. In addition, four employees had unnecessary ability to initiate payments without an associated encumbrance of funds at the time of purchase. Providing college staff with computer access they do not need to perform their job exposes college finances to excessive risk and defeats the purpose that the computer security was designed to prevent.

Five colleges had employees with incompatible access for recording tuition and student receivables: Anoka (5 staff) and Dakota (3 staff) Technical Colleges, North Hennepin Community College (6 staff), Northland Community and Technical College (2 staff), and South Central College (3 staff). These colleges stated that they had detective controls to ensure that transactions were appropriate; one college stated that their risk was greatly reduced because these employees had no access to cash.

South Central College had two payroll staff with inappropriate ability to update personnel records. The payroll staff entered faculty step increases and overload transactions, which should be a responsibility of staff in the college's human resources office. The college should separate personnel duties from payroll staff to prevent their ability to exclusively handle a transaction from beginning to end.

Three colleges had financial staff with incompatible access to initiate procurements and also make vendor payments: Anoka Technical College (5 staff), North Hennepin Community College (3 staff), and South Central College (5 staff). Ideally, the purchasing and payment processes should be segregated to provide an appropriate level of control over expenditures. These colleges believed that the reviews by cost center managers of expenditure reports were sufficient to mitigate the risk of unauthorized or inappropriate purchases.

Colleges authorized incompatible access to employees without justifying the need and without documenting alternative controls designed to detect errors or irregularities should they occur. While the Office of the Chancellor does not require justification when colleges request incompatible access for employees, it designed security profiles to avoid this situation. Colleges

Minnesota State Colleges and Universities (MnSCU)

must have a legitimate business need for the incompatible access, such as a lack of sufficient staff to adequately segregate incompatible duties. College management should be aware of the existence of the incompatible access and ensure that effective controls are in place and being used to detect errors and irregularities should they occur.

None of the colleges where incompatible access existed had written guidelines or instructions for their detective controls. These guidelines should explain the purpose of the control and establish the responsibility for its performance. It should identify the steps involved in performing the control, any reports used as a basis for the review, the frequency of the review, and how to report errors or irregularities identified as part of the review. Also, the performance of the control should be documented and verifiable so that college management can be assured of its performance.

Colleges that authorize an employee to have security profiles that create incompatible access to MnSCU's financial systems and do not have clearly defined and verified detective controls have an increased risk that fraudulent transactions could occur without detection.

Recommendation

- *The applicable MnSCU colleges should limit access to MnSCU's financial systems to ensure adequate separation of duties and to prevent unauthorized access to data, or the colleges should justify the need for incompatible access and better define, evaluate, and document the detective controls designed to mitigate the risk of error or irregularity.*

Minnesota State Colleges and Universities (MnSCU)

This page intentionally left blank.

Chapter 3. Tuition and Fees

Chapter Conclusions

The colleges' internal controls generally provided reasonable assurance that cash collections were adequately safeguarded, receipt transactions were accurately reported in the accounting records, and financial transactions complied with applicable legal provisions and management's authorization. However, some colleges had weaknesses related to tuition rates and waivers, pursuing delinquent accounts receivable, and documentation supporting entry of negative receipt transactions in the accounting system. One college did not properly execute contracts for its customized training courses.

The colleges complied with significant finance-related legal provisions for the items tested, except that four colleges did not follow the tuition waiver guidelines as required by board policy.

Audit Objectives

Our audit of tuition and fees at the selected colleges focused on the following questions:

- Did the colleges' internal controls provide reasonable assurance that it safeguarded tuition collections and third-party billing receipts, accurately reported them in the accounting records, and complied with applicable legal provisions and management's authorization?
- For the items tested, did the colleges comply with the significant finance-related legal provisions concerning tuition?

Background Information

MnSCU colleges offer both credit based and noncredit based technical and career programs, as well as an undergraduate liberal arts curriculum. All MnSCU colleges and universities use the Integrated Statewide Record System to record various student data and registration information. The system's accounting module processes and records the receipt transactions associated with tuition and fees.

Table 3-1 shows the tuition and fee revenue collected by the colleges during fiscal year 2005.

Minnesota State Colleges and Universities (MnSCU)

Table 3-1
Tuition and Fee Revenue by College (in \$000's)
Fiscal Year 2005

College	Tuition and Fees⁽¹⁾	Student Waivers⁽¹⁾	Employee Waivers⁽²⁾	Net Revenue
Alexandria	\$8,181	(\$15)	(\$82)	\$8,084
Anoka	6,273	(17)	(25)	6,231
Dakota County	9,325	(5)	(40)	9,280
North Hennepin	16,566	(100)	(68)	16,398
Northland ⁽³⁾	10,812	(31)	(70)	10,711
South Central	7,476	(31)	(44)	7,401
Saint Paul	10,568	(112)	(42)	10,414
Total	<u>\$69,201</u>	<u>(\$311)</u>	<u>(\$371)</u>	<u>\$68,519</u>

Note (1): Effective July 1, 2004, Northland Community & Technical College balances include tuition collected by the East Grand Forks campus. The East Grand Forks campus was previously aligned with Northwest Technical College.

Source: MnSCU Accounting System Data FY 2005 as of December 31, 2005.

Findings and Recommendations

2. Anoka Technical College did not charge board-approved tuition rates for some programs.

Anoka Technical College assessed tuition rates that were not approved by the MnSCU Board of Trustees. The college sent rate change requests to the MnSCU Budget Office who inadvertently overlooked them and did not submit them for board approval. The unapproved tuition rate changes for the following three programs caused several hundred enrolled students to be undercharged or overcharged:

College Program	Credit Rate Approved by Board	Credit Rate Used by College	Per Credit (Under) or Over Charge	Total Effect on Revenue
Information Technology (2005)	\$164.00	144.00	\$ (20.00)	\$(35,320)
Aircraft Dispatch (2005)	133.40	153.41	20.01	3,202
Judicial Reporting (2005)	252.20	290.38	38.18	17,105

The college entered information into the MnSCU system's tuition rate table based on rates they assumed were approved by the MnSCU Board of Trustees. The accounting system then used the rates, in conjunction with student registration information, to calculate student tuition bills. Since the college needs to enter tuition rate changes for the upcoming school year prior to receiving board approval, it must subsequently verify the board approved those rate changes to avoid charging students the incorrect amounts.

Minnesota State Colleges and Universities (MnSCU)

Recommendations

- *Anoka Technical College should ensure that MnSCU's Board of Trustees approves program tuition rates, and the college should verify they used those approved rates in the registration system.*
- *Anoka Technical College should work with the Office of the Chancellor to determine the cost-effectiveness of pursuing recoveries or issuing refunds to students attending those programs.*

3. Some colleges inappropriately used waiver transactions or did not document the rationale for backdated registration changes.

Three colleges did not use tuition waiver transactions in compliance with MnSCU policy. Two of those colleges also did not adequately document the reason for some tuition waivers and backdated registration cancellation transactions. College staff eliminated a student's tuition and fee charges in various ways, including the waiving of tuition or backdating a cancellation of the registration. A waiver transaction does not eliminate the registration but does remove the charges. Backdating dropped classes cancels the registration and eliminates the charges.

MnSCU Policy 5.12 (Refunds, Withdrawals, and Waivers) allows institutions discretion when canceling tuition charges, but specifies certain situations when waivers are appropriate. Those situations include an employee benefit provided by bargaining agreements, death of a student, medical reasons, and college error. The policy does not clearly define when it is appropriate to eliminate tuition charges by backdating changes to a student's registration. Backdated and waiver transactions are high-risk because they allow college staff to adjust accounts receivable balances and ultimately the revenue it collects.

The colleges had the following weaknesses in the use and documentation of waiver and backdated registration cancellation transactions:

- Anoka Technical College did not adequately document the reasons for two of nine tuition waivers tested and three of six backdated registration cancellations tested. Without adequate documentation, the college was unable to support the validity of these transactions.
- North Hennepin Community College's Center for Training and Development improperly used tuition waiver transactions to correct inaccurate recording of revenue for some classes it offered. For example, the center posted duplicate revenue for its Geographic Information Systems Technician certificate program involving ten classes and subsequently processed waivers for each class. The reasons for these waivers did not comply with the criteria set in MnSCU Policy 5.12, and we feel they should have used some form of correction transaction to reverse the revenue rather than waiving it. The center issued a total of \$107,738, or approximately 20 percent of all the college's waivers, for the three-year audit period.

Minnesota State Colleges and Universities (MnSCU)

The Center for Training and Development also used waiver transactions to reduce student amount owed when it received third-party loans or scholarship money to fund the student's tuition. It recorded the scholarship or loan as revenue, registered the student for classes, and waived the tuition each semester until the funds were eliminated. In one case, the college's center ended up discounting the cost for the final class by \$182 to agree with the remaining loan balance.

North Hennepin Community College's Center for Training and Development also inappropriately used waiver transactions to offset money for student referrals with another MnSCU college. The center entered into an interagency agreement with Anoka Ramsey Community College for referral of students between the two schools. The agreement provided that the referring college would receive 25 percent of tuition from the other college for each student referred. The center owed Anoka Ramsey Community College \$3,000 for a referral and initiated a student tuition waiver for this amount. The MnSCU policy on waivers does not encompass the referral practices being used by the two colleges.

- Northland Community and Technical College was unable to provide evidence for one of ten tuition waivers tested and five of ten backdated registration changes tested. In addition, the college had no independent staff review of these types of transactions or accounts receivable corrections and adjustments. Without documentation and independent review and approval, an increased risk of errors or irregularities exists without detection.

➤

Recommendations

- *Anoka Technical College and Northland Community and Technical College should comply with the MnSCU Board Policy regarding waivers of tuition and fees, and adequately document accounts receivable adjustments and backdated registration changes.*
- *North Hennepin Community College should work with the Office of the Chancellor to improve accounting for the Center for Training and Development's customized training revenue, referrals, and waivers.*

4. PRIOR FINDING NOT RESOLVED: Two colleges did not have an adequate process to refer old accounts receivables to the Department of Revenue's Collection Division.

We found that two colleges did not adequately manage their delinquent accounts receivables. *Minnesota Statutes* 2005, 16D.04, subd. 2(b), states that when a debt becomes 121 days past due, the state agency must refer the debt to the Department of Revenue for collection. In addition, MnSCU Procedure 7.6.2 reinforces this requirement and further requires colleges to make every reasonable effort to pursue collection of an account before write-off.

- Anoka Technical College continues to lack an adequate process to monitor and follow-up on its accounts receivables. As of late June 2006, the college did not forward nearly \$113,000

Minnesota State Colleges and Universities (MnSCU)

in delinquent receivables to the Department of Revenue for collection. Students owed nearly \$66,000 of this amount, while businesses that received customized training courses from the college owed the remaining \$47,000. By not referring the past due accounts to the Department of Revenue's Collection Division, the college increases the risk of not collecting the amounts due.

- South Central College does not have a written accounts receivable management policy as required by MnSCU Procedure 7.6.2. The procedure states that MnSCU institutions must have written policies and procedures for managing their accounts receivables and pursuing delinquent accounts. Without a policy, the college did not have clear procedures and timeframes for collecting delinquent accounts. For example, the college did not send timely follow-up invoices to students with unpaid balances totaling \$160,000 for the 2006 spring semester. Tuition was due on January 13, 2006; however, the college did not send follow-up invoices until June 26, 2006. By not sending the letters in a timely manner, the college did not pursue unpaid accounts and increased the likelihood of need to refer to the Department of Revenue's Collection Division for collection assistance.

Recommendations

- *Anoka Technical College should actively pursue collection of past due accounts, including referral of accounts to the Department of Revenue's Collection Division after they are 121 days past due.*
- *South Central College should develop written procedures and guidelines for accounts receivable management. The college should review past due accounts on a monthly basis and refer uncollected accounts to the Department of Revenue.*

5. PRIOR FINDING PARTIALLY RESOLVED: Saint Paul College extended additional credit to third-party payers with unsettled accounts receivable balances.

Saint Paul College continued to extend additional credit to third-party payers of student tuition despite not collecting on prior obligations from that third-party. Third-party payers include private companies or nonprofit organizations that authorized the college to bill them for the cost of a student's tuition, fees, or books. Since the last audit, the college improved its effort to pursue collections from third-parties by developing a list of entity contacts and notifying them more frequently about the past due accounts. However, the college did not require that third-parties pay prior past due balances before letting them incur new obligations for the current term. In addition to the increased administrative resources necessary to track and pursue old uncollected balances, the college increases the likelihood of defaults and write-offs the longer those balances remain uncollected.

Minnesota State Colleges and Universities (MnSCU)

Recommendation

- *Saint Paul College should require payment on prior obligations from third-party payers before extending credit in the current year.*

6. Three colleges did not deposit receipts or record some transactions in a timely manner.

Three colleges delayed deposit of money or recording of receipt transactions due to operational needs or circumstances. Minnesota statutes and MnSCU Policy 7.5 requires that, “All monies received by the college shall be deposited daily, unless receipts are less than \$250, in which event deposits may be deferred until they total such sum.” Holding money on-site increases the risk of theft, and the delayed posting of revenue and receivables increases the potential for errors or manipulation.

- Anoka Technical College did not timely deposit or record prepaid tuition it received from third parties. The college did not deposit certain receipts or post the transactions to the students’ account until after the start of classes and the posting of financial aid. College employees said they delayed depositing the receipts to avoid inaccurate refunds and to allow financial aid to post to the student’s account first.
- South Central College’s Faribault campus did not always timely deposit receipts. For example, the campus held a receipt of \$3,086 for several days before deposit because the money arrived before staff posted the corresponding customized training registration. When this occurs, the business office notifies the customized training staff and holds the money until they record a receivable in the accounting system to post the deposit against. In these cases, we feel the money should be promptly deposited and a receivable adjustment processed when it subsequently records the registration.
- Saint Paul College did not record certain electronic fund transfers into the MnSCU accounting system in a timely manner. During busy times throughout the school year, the college received electronic fund transfers for tuition in its bank account; however, it did not timely record the corresponding revenue in the accounting system. For example, the college received \$5,484 in its bank account on February 9, 2005, but did not update the MnSCU accounting system until March 17, 2005. Untimely recording of these revenue transactions hinders an effective bank reconciliation and creates a need for college staff to identify which bank transaction is not yet recorded in the accounting system.

Recommendation

- *The colleges should timely deposit and ensure that all revenue transactions are recorded in the MnSCU accounting system in a timely manner.*

Minnesota State Colleges and Universities (MnSCU)

7. Anoka Technical College did not determine the disposition of 18 old college-issued checks totaling \$3,426.

Anoka Technical College held 18 checks it issued several years ago without resolving the disposition of those checks. As part of a computer system work-around, the college generated 18 checks, totaling \$3,426, but did not mail the checks or void them. The business manager at that time left college employment without determining if the checks should be sent or voided. The college should void these old checks to eliminate the risk of misuse or being inappropriately cashed. If a valid claim exists, the college can reissue a new check to the payee.

Recommendation

- *Anoka Technical College should void the unissued checks and reissue them if they determine a valid claim exists.*

8. Alexandria Technical College did not adequately document negative receipt transactions when recording certain cash collections.

Alexandria Technical College did not adequately document transactions that reduced cash balances in the MnSCU accounting system. The college cashiers use cash sessions much like a cash register to track the money collected for the day, and they enter negative cash receipt transactions² similar to voided transactions. Cashiers recorded negative transactions on two of ten days of cash activity tested. The cashiers did not document the reasons for the negative transactions, and there was no evidence that an independent person reviewed or authorized the transactions. By not documenting the reasons for the negative receipt transactions, the college may not remember why they entered those transactions. Furthermore, there is risk of theft because the same person that collected the cash can reduce the amount posted into the accounting system.

Recommendation

- *Alexandria Technical College should document the reason for negative transactions recorded during the cash sessions and have an independent person review the propriety of those transactions.*

9. PRIOR FINDING NOT RESOLVED: Alexandria Technical College did not have approved income contracts with some customized training clients.

Alexandria Technical College did not fully execute contracts with businesses for customized training contract courses. The college's customized training department offered manufacturing and industrial businesses training that is tailored to the business' specific needs. For one

² These negative receipts only apply to "general receipts" and not receipts applied to specific accounts. A negative receipt transaction applied to a specific account reinstates the accounts receivable in that account, and the college then attempts to collect the outstanding account balance.

Minnesota State Colleges and Universities (MnSCU)

contract, the college established the contract for \$5,614 but did not formally execute it by obtaining the necessary authorized signatures. Customized training staff acknowledged continued difficulty obtaining the appropriate signatures and a need to follow up with the client representatives from the business involved. Without properly executed contracts, the college increases the risk that the terms and conditions of its agreements cannot be enforced.

Recommendation

- *The college should ensure that all customized training income contracts with its customers contain proper authorizations.*

Chapter 4. Employee Payroll

Chapter Conclusions

The colleges' internal controls provided reasonable assurance that personnel and payroll transactions were accurately reported in the accounting records and complied with applicable legal provisions and management's authorization. However, one college did not prepare written customized training personnel agreements, and another college did not initiate personnel assignments for certain customized training staff in a timely manner. In addition, one college did not accurately calculate some severance payments to faculty members, and two colleges did not accurately accrue sick or personal leave earned by some current employees.

For the items tested, the colleges complied with material finance-related legal provisions governing personnel and payroll. However, two colleges did not properly record certain untimely employee expense reimbursements as taxable income according to the Internal Revenue Service's requirements.

Audit Objectives

Our review of employee payroll at the selected colleges focused on the following questions:

- Did the internal controls provide reasonable assurance that personnel and payroll expenditures were accurately reported in the accounting records and complied with applicable legal provisions and management's authorization?
- For the items tested, did the expenditures comply with the significant finance-related legal provisions concerning payroll?

Background Information

Payroll costs are the most significant operating costs for the colleges. MnSCU uses the state's payroll system³ to process payroll checks and MnSCU's State Colleges and Universities Personnel Payroll System to process personnel information. Table 4-1 shows the expenses for salary and fringe benefits for fiscal year 2005 for the colleges included in the audit scope.

³ The state's payroll system is the State Employee Management System (SEMA4).

Minnesota State Colleges and Universities (MnSCU)

Table 4-1
Employee Payroll Costs by College (in \$000's)
Fiscal Year 2005

MnSCU Campus	Employee Salaries⁽¹⁾	Employee Fringe Benefits⁽¹⁾
Alexandria Technical College	\$10,817	\$3,436
Anoka Technical College	8,764	2,596
Dakota County Technical College	12,709	3,622
North Hennepin Community College	16,231	4,629
Northland Community & Technical College ⁽²⁾	14,966	4,377
South Central College	14,907	4,443
Saint Paul College	15,680	4,270
Total	<u>\$94,074</u>	<u>\$27,373</u>

Note (2): Northland Community & Technical College payroll costs include the East Grand Forks campus. The East Grand Forks campus was previously aligned with Northwest Technical College.

Source: MnSCU accounting system for Fiscal Year 2005, as of December 31, 2005.

Findings and Recommendations

10. One college did not prepare written agreements, and another college did not enter timely personnel assignments for certain customized training instructors.

Two colleges had problems with personnel assignments for instructors that taught customized training courses. Customized training assignments pose an increased risk due to the irregular nature and demand for their training programs.

- Alexandria Technical College did not prepare written agreements for compensation paid to its regular college faculty members that taught non-credit customized training courses. According to the 2003-2005 Minnesota State College Faculty Contract, Article 13, Section 7, *"The compensation for customized training faculty... shall be agreed to by the College President or designee and the faculty member."* When the college hired customized training instructors from the private sector, it prepared written agreements with those instructors. However, when the college had its regular college faculty members teach non-credit customized training courses, it did not require them to sign an agreement outlining their agreed upon compensation. During fiscal years 2003 through 2005, the college paid a total of \$156,000 to its regular faculty for customized training assignments. Having the faculty member sign a written agreement helps avoid future misunderstandings and potential grievances.
- Anoka Technical College did not enter some customized training faculty assignments into MnSCU's personnel system in a timely manner. In some instances, the college did not enter the personnel assignment until after the instructor taught the customized training course. College human resources staff stated that they did not always receive information from their

Minnesota State Colleges and Universities (MnSCU)

customized training/corporate center until after the course started. Without prompt recording of faculty assignments in the personnel system, college expenses and obligations are understated and not reflected in the cost center spending reports until entered. Also, the faculty member is not being compensated until after the college enters the personnel assignment. The college's customized training personnel costs totaled \$301,878 for fiscal year 2005.

Recommendations

- *Alexandria Technical College should obtain written agreements with faculty members that teach customized training courses.*
- *Anoka Technical College should enter customized training faculty assignments into the personnel system in a timely manner.*

11. Two colleges did not tax certain employee expense reimbursements submitted over 60 days after the employees incurred the expenses.

During fiscal year 2006, Anoka Technical College reimbursed five employees and South Central College reimbursed three employees over 60 days after the employees incurred expenses, but the colleges did not properly code the reimbursements as taxable income. The Internal Revenue Service's guidelines⁴ effective July 1, 2005, requires employers to tax employee expense reimbursements as personal income when reimbursed over 60 days after they incurred the expenses. In order to comply with the Internal Revenue Service's guidelines, colleges should ensure employees understand the tax consequences of untimely expense reimbursements, and financial staff understand how to code those transactions in the state's payroll system. Without proper coding, taxable income is not accurately measured, causing an underpayment of federal, state, and social security taxes. In addition, the employing college is responsible to match the amount of social security taxes paid.

Recommendations

- *Anoka Technical College and South Central College should comply with IRS guidelines requiring that employee expense reimbursements be identified as taxable income when paid over 60 days after the expenses were incurred.*
- *Anoka Technical College and South Central College should review all employee business expenses it processed since July 1, 2005, and should work with the Department of Finance to resolve any errors.*

⁴ Internal Revenue Service Publication 15, Circular E, revised January 2005.

Minnesota State Colleges and Universities (MnSCU)

12. Dakota County Technical College did not accurately calculate severance payments for three employees.

Dakota County Technical College did not accurately calculate severance payments made to three former faculty members upon termination. The calculation errors resulted in underpaid severance of \$5,570 and \$2,416 to two former employees and overpaid severance of \$284 to another.

The college missed a critical step in the severance calculation process required by provisions in the Minnesota State College Faculty Employment Contract. The contract allows an employee to accumulate sick leave up to a maximum balance of 112 days and, after that, any earned sick leave is credited to their 'lapsed' leave balance. The contract provides for severance payment upon separation equal to 50 percent of their unused sick leave balance up to the 112-day maximum, plus 12.5 percent of any 'lapsed' sick leave. However, if an employee has taken sick leave and had it reduced from the 112-day maximum, the contract allows it to be replenished from their 'lapsed' sick leave back to the maximum level. Errors occurred because the college mistakenly did not replenish the employees' sick leave balances to the 112-day maximum, causing an underpayment of their severance. In addition, the college overpaid severance to a different faculty member, due to a calculation error, resulting in payment of one additional sick leave day.

The college did not detect these severance payment errors because no independent staff, other than the employee who made the calculations, reviewed them for accuracy. Ideally, an independent employee should perform the review.

Recommendations

- *Dakota County Technical College should pay the former faculty members the additional severance of \$5,570 and \$2,416 owed to them and recover the \$284 overpayment made to the other former faculty member.*
- *The college should improve control over the accuracy of severance calculations by having a second employee review them for accuracy.*

13. Two colleges did not accurately record leave accruals earned for some employees.

Dakota County Technical College and Anoka Technical College had leave accrual errors for certain faculty members, as discussed below. Errors in leave accruals can result in inaccurate severance payments when an employee terminates at a future time.

- Dakota County Technical College did not accurately record leave accruals in the State Colleges and Universities Personnel/Payroll System for five faculty members due to the following situations.

Minnesota State Colleges and Universities (MnSCU)

- The college miscalculated the personal and sick leave accruals earned by one part-time faculty member causing an understatement of personal leave by one day and sick leave by approximately five days. Instead of using automated system calculations, the college manually calculated the accruals and inaccurately prorated the accruals based on the number of credits assigned.
 - The college credited a faculty member with one additional day of sick leave for summer instruction than was allowed by their personnel contract. The contract provides for sick leave accruals for summer instruction at a rate of one day for each three credits assigned, up to a maximum of three days. However, the college mistakenly recorded four days of earned sick leave when the faculty member taught 12 credits during the summer.
 - The college did not retroactively adjust personal leave balances for four faculty members, including one listed above, for a change to their 2004-2005 contract. The contract increased the maximum personal leave balance allowed from 8 days to 10 days, but the contract was not signed until February 2004. Before the contract changed, the four employees were at the 8-day maximum and should have been entitled to accrue the two additional days of personal leave granted by the new fiscal year 2004 provision.
- Anoka Technical College provided an ineligible part-time faculty member with sick and personal leave. The faculty agreement specified that a faculty member must teach five or more credits to accrue sick and personal leave; but one faculty member actually taught less than five credits and was ineligible. The system inappropriately accrued leave for this employee for fiscal year 2003 but the college detected the error and corrected it. However, it occurred again in fiscal years 2004 and 2005, and the college did not identify the error.

Recommendations

- *Dakota County Technical College should correct the leave accrual errors for its current employees. The college should utilize the automated accrual calculation or have an independent employee review the accuracy of any manual leave adjustments recorded in the State Colleges and Universities Personnel/Payroll System.*
- *Anoka Technical College should ensure it only provides leave benefits to faculty members teaching five or more credits as specified in their contract provisions.*

Minnesota State Colleges and Universities (MnSCU)

14. Northland Community & Technical College did not independently monitor employee payroll transactions.

Northland Community & Technical College did not independently verify employee timesheet hours and lump-sum payroll transactions entered into the state's payroll system. The payroll clerk entered timesheet hours and payroll transactions; however, the same individual verified the accuracy of that input to the payroll register. State policies⁵ requires a review of the biweekly payroll register. The payroll register identifies all biweekly transactions being processed, including current and retroactive salary adjustments, special lump-sum transactions, and changes to earning types, hours, and pay rates. An independent review allows detection of any input errors prior to the actual preparation of the employee's paycheck. The lack of an independent review increases the risk that inappropriate transactions could go undetected.

Recommendation

- *Northland Community & Technical College should have someone independent of the payroll function review the payroll register.*

⁵ State Employee Management System (SEMA4) Policy PAY0028.

Chapter 5. Administrative and Operating Expenses

Chapter Conclusions

Two colleges generally had adequate internal control practices to procure and process payments for administrative and operating expenses. However, five colleges had specific internal control weaknesses with documenting, processing, and recording of expense transactions in the accounting system. These weaknesses increase the risk of noncompliance with purchasing and prompt payment requirements, payment for goods or services not received, and improper recording of expense transactions in the accounting system for budget monitoring and financial analysis.

For the items tested, the colleges complied with significant finance-related legal provisions concerning administrative and operating expenses, except that five colleges did not always adhere to certain purchasing and contract requirements.

Audit Objectives

Our review of administrative and operating expenses at the selected colleges focused on the following questions:

- Did the internal controls provide reasonable assurance that administrative and operating expenses were accurately reported in the accounting records, and the expenses complied with applicable legal provisions and management's authorization?
- For the items tested, did the transactions comply with the significant finance-related legal provisions concerning administrative and operating expenses?

Background Information

College departments and divisions initiated purchase requests and submitted them to their respective business office for processing. The colleges used the Purchase Control System, a module within the Integrated Student Record System, to record and monitor procurement transactions. MnSCU has established system-wide purchasing and contracting policies and procedures. Table 5-1 summarizes the material nonpayroll administrative and operating expenses for fiscal year 2005 for the colleges included in our audit scope. We determined our testing at each entity based on the materiality of the types of administrative expenses incurred. Generally, we excluded a review of transactions related to financial aid and bookstore activity unless there were prior audit concerns.

Minnesota State Colleges and Universities (MnSCU)

Table 5-1
Administrative and Operating Expenses (in \$000's)
Fiscal Year 2005

College	Purchased Services	Contract Services	Supplies	Supplies for Resale	Equipment	Land & Building	Other
Alexandria	\$ 944	\$ 542	\$ 2,467	\$ 487	\$ 614	\$ 572	\$1,128
Anoka	828	787	744	566	0	6	927
Dakota County	1,929	1,837	2,020	1,358	408	267	1,179
North Hennepin	1,103	1,036	1,904	2,187	141	2,355	1,339
Northland ⁽¹⁾	985	770	2,187	1,049	393	312	1,952
South Central	999	1,379	1,413	1,410	343	14	1,277
Saint Paul	<u>1,886</u>	<u>1,037</u>	<u>2,429</u>	<u>1,419</u>	<u>231</u>	<u>0</u>	<u>1,160</u>
Total	<u>\$8,674</u>	<u>\$7,388</u>	<u>\$13,164</u>	<u>\$8,476</u>	<u>\$2,130</u>	<u>\$3,526</u>	<u>\$8,962</u>

Note (1) Northland Community & Technical College expenses include the East Grand Forks campus. The East Grand Forks campus was previously aligned with Northwest Technical College.

Source: MnSCU Accounting System for FY 2005 as of December 31, 2005.

Findings and Recommendations

15. Five colleges had specific internal control weaknesses with documenting, processing, and recording various expense transactions in the accounting system.

Five colleges had specific internal control weaknesses that increased the risk of noncompliance with purchasing policies and prompt payment requirements, payment for goods or services not received, and/or improper recording of expense transactions in the accounting system for budget monitoring and financial analysis. We sampled a variety of transactions to test and encountered several exceptions that revealed breakdowns or weaknesses in key internal controls. Following is a list of the various types of problems encountered at each college:

Anoka Technical College

- no purchase orders and encumbrance of funds before incurring obligations;
- contracts not prepared or executed prior to starting work, and invoices did not agree with the terms of the contract;
- lack of sufficient evidence assuring receipt of goods; and
- incorrect transaction coding of obligation dates.

Minnesota State Colleges and Universities (MnSCU)

North Hennepin Community College

- purchase authority exceeded, no encumbrance before incurring obligation, and payments exceeded encumbered amounts;
- no authorization for some requisitioned purchases and paid invoices;
- some invoices not promptly paid; and
- incorrect transaction coding of obligation dates.

Northland Community & Technical College

- requisitions and purchase orders prepared after invoices were received; and
- invoices not promptly paid.

South Central College

- frequent use of ‘direct pay’ where an encumbrance is not entered prior to payment;
- no payment authorization from cost centers assuring it received the services;
- lack of sufficient evidence assuring receipt of goods;
- incorrect transaction coding of obligation dates and object codes; and
- equipment module not updated for two large computer purchases.

Saint Paul College

- no documented purchase prices on bookstore textbook purchase orders;
- lack of bookstore receiving evidence and bookstore invoices not promptly paid; and
- incorrect bookstore transaction coding of obligation dates.

We found similar exceptions at Alexandria Technical College and Dakota County Technical College that we considered more isolated in nature rather than fundamental weaknesses in the design or implementation of the colleges’ internal controls.

Recommendation

- *The applicable colleges should strengthen controls to ensure compliance with MnSCU and college purchasing policies and accurate reporting of financial activity in the accounting system.*

16. South Central College does not have a written agreement to clarify its role and responsibilities as fiscal agent for an external organization.

South Central College does not have a written agreement outlining its responsibilities as the fiscal agent for an organization called Consortium of Minnesota Educational Telecommunities (COMET).⁶ As a fiscal agent, the college serves as a fiduciary for processing payments to vendors to operate COMET. Without a written agreement, the college may be held liable for any errors or disputes that might arise from handling the organization’s finances.

South Central College did not obtain documented authorization from COMET representatives to pay termination charges for discontinued services with two telecommunications companies. The

⁶ COMET is funded by state appropriations provided to the Office of Higher Education and dues paid by representatives of member organizations. The purpose of the program is to establish interactive audio-visual conferencing technology among K-12 schools, public libraries, and college campuses in various regions throughout the state.

Minnesota State Colleges and Universities (MnSCU)

college indicated that they received verbal approval. Termination charges were the result of switching its interactive teleconferencing from phone lines to video internet protocols. The termination resulted in two large payments of \$184,331 and \$99,315 in fiscal year 2005.

Recommendation

- *South Central College should develop a written agreement with COMET outlining the college's role and responsibilities. It should also obtain COMET authorization for payments to limit any financial exposure the college may have under the arrangement.*

17. One employee at Alexandria Technical College did not comply with requirements governing frequent flyer miles.

One employee at Alexandria Technical College did not comply with statutes and MnSCU board procedures governing frequent flyer miles. In addition, the college did not effectively monitor the employee's frequent flyer business miles earned. The employee accrued 39,098 frequent flyer miles to his personal account while traveling on college business. According to the employee, most of the travel was paid by the college's customized training customers.

Minnesota Statutes 2005, 15.435 requires that whenever public funds are used to pay for airline travel by a public employee, any credits or other benefits issued by any airline must accrue to the benefit of the public body providing the funding. In situations where a third party pays the travel costs, *Minnesota Statutes* 2005, 43A.38 applies as it prohibits employees in the executive branch from receiving benefits attained while on state business.

MnSCU Board Procedure 5.1.3, Part 8 also requires that employees who participate in airline frequent flyer programs for their personal travel obtain a separate airline frequent flyer program number to record and report receipt of credits or other benefits when using state funds. The college did not have adequate procedures in place to ensure its employees understand and comply with these statutes and the MnSCU procedure.

Recommendations

- *Alexandria Technical College should monitor its employees' frequent flyer business miles to ensure compliance with travel-related statutes and MnSCU Board procedures.*
- *The Alexandria Technical College should recover the frequent flyer miles or the value of the miles from the employee.*

Chapter 6. Bookstore Operations

Chapter Conclusions

Dakota County Technical College and Saint Paul College's internal controls generally provided reasonable assurance that bookstore revenues and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, Saint Paul College had internal control concerns with bookstore expenses, as noted in Chapter 5, Finding 14. For the items tested, the two colleges complied with the significant finance-related legal provisions concerning bookstore revenue and cash collections.

Anoka Technical College's internal controls were not adequate to control bookstore operations over the audit period. However, in June 2006, the college closed its on-campus bookstore, and students began using an online bookstore vendor to purchase course textbooks.

Audit Objective

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

- Did the colleges' internal controls provide reasonable assurance that bookstore revenues and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the colleges comply, in all material respects, with the significant finance-related legal provisions concerning bookstore operations?

Scope and Background Information

We reviewed internal controls over bookstore operations at three colleges where prior audit findings existed. Dakota County Technical College and Saint Paul College resolved those findings by improving their internal controls and bookstore practices. Prior to June 2006, Anoka Technical College operated a bookstore on campus where students could purchase books, supplies, and apparel. Prior audits identified weaknesses in the bookstore's controls and noncompliance with financial reporting requirements. These problems factored into the college's decision to close its on-campus bookstore, as explained later in this chapter.

Minnesota State Colleges and Universities (MnSCU)

College bookstores offer textbooks and a wide range of school and personal supplies for sale. Students have the option of paying by cash, check, credit card, or offset against their financial aid. The bookstores use a point-of-sale system to process sales transactions and to track accounts receivable and inventory.

Table 7-1 shows bookstore revenue for these colleges for fiscal year 2005.

Table 7-1
Bookstore Revenue by College
Fiscal Year 2005

Technical College	Revenue
Anoka	\$ 754,006
Dakota County	991,799
Saint Paul	<u>1,508,938</u>
Total	<u>\$3,273,703</u>

Source: MnSCU Accounting System Data for FY 2005 as of December 31, 2005.

Anoka Technical College

During our audit of bookstore activities for fiscal years 2003 through 2005, we encountered numerous issues at Anoka Technical College, which we have outlined below:

- Bookstore cash collected did not always reconcile to the daily sales totals reported in its point-of-sale system, resulting in cash overages and shortages. The college did not always pursue or find the reason for the errors. In January 2004, the bank deposit was short by nearly \$667, and credit card receipts were also short by \$85. For fiscal year 2004, the total over/under account used by the bookstore had a net shortage of \$1,165. Cash shortages could indicate that some of the daily receipts had been stolen.
- The bookstore sometimes held receipts for more than one day rather than depositing them in a timely manner. We found that three out of eight deposits tested were deposited two or more days after the bookstore received the money. The receipts ranged from about \$40,000 to \$55,000. In addition, we were unable to determine if the bookstore verified deposits to the amounts posted to the accounting system, as was recommended in the prior audit report.
- In August 2003, the college made an unauthorized cash flow loan of \$10,000 from the bookstore to a state grant program. Contrary to MnSCU Procedure 7.3.2, the college did not execute a written agreement for the loan, nor did the college obtain approval from Anoka Technical College's president. The state grant program repaid the loan in December 2003.
- As noted during the prior audit, the college did not prepare complete financial statements for its auxiliary enterprises or maintain a complete business plan for these activities. The college did not prepare balance sheets for fiscal years 2004 and 2005, and the college's business plan did not address budgeting, pricing practices, or use of excess balances. In addition, the

Minnesota State Colleges and Universities (MnSCU)

college did not always record the investment income in the accounting system in the year earned. In fiscal year 2005, the college recorded investment income it earned during fiscal years 2001 through 2005.

- For bookstore purchases, the college typically did not prepare purchase requisitions, encumber funds before the purchase, document receipt of goods ordered or enter them into the inventory system, provide approval to pay the invoices, correctly record the object code and obligation date in the accounting system, or promptly pay invoices.
- The college did not adequately separate bookstore duties. The bookstore manager was responsible for purchasing, receiving, recording, counting, selling, and adjusting bookstore inventory. Without an adequate separation of duties, there is a risk of errors and irregularities. In addition, as noted in prior audits, there was no monitoring of high risk transactions, such as voids and returns.
- The college did not return unsold textbooks in a timely manner, causing the vendor to not accept a return for them. This resulted in obsolete inventory in the bookstore.
- The bookstore did not have a contract for its book buyback operation. The college used an outside vendor to buy back used books from the students. The company paid the students for the books and paid a commission to the college. Sometimes, the college would repurchase some of the books from the company to sell to the students for the upcoming semester. However, the college did not have a contract with the vendor to formalize the terms and conditions of this arrangement.

Beginning July 2006, the college planned to contract with a vendor to provide an online bookstore with the college collecting a commission from the online sales to its students. Students can access the online bookstore from the college's website to order books, supplies, and apparel online. The vendor delivers the merchandise to the students. Students can also sell their books to the online vendor.

Due to the closure of the on-campus college bookstore, we did not make recommendations for improved internal controls.

Minnesota State Colleges and Universities (MnSCU)

This page intentionally left blank.

Minnesota State Colleges and Universities (MnSCU)

Status of Prior Audit Issues As of July 31, 2006

Most Recent College Audits

Office of the Legislative Auditor (OLA) Table 7-1 shows the most recent OLA audit report and period covered for the colleges included in the current audit scope. Generally, the scope included computer system access, tuition and fees, payroll, operating and administrative expenditures, and bookstore operations. As part of our current audit, we assessed the status of any prior audit recommendations issues related to areas included in our scope but may not have followed up on other areas. Overall, MnSCU colleges fully or substantially implemented 30 of 43 prior audit recommendations. Except for Northland Community & Technical College's findings involving areas outside of our current audit scope, any unresolved or partially resolved findings are included in our current report.

Status of OLA Prior Audit Recommendations As of June 30, 2006

College	OLA Report	Scope	Audit Area	Issue	Status
Alexandria Technical College	03-46	FY 2000-2002	Financial Management	Did not document contract terms	Implemented
			Tuition	Controls over backdated registrations and tuition deferments	Implemented
			Tuition	Prompt deposit & timely invoicing of delinquent accounts	Implemented
			Tuition	Failure to execute customized training contracts	Unresolved (See Finding 9)
			Expenditures	Controls over purchasing cards	Implemented
			Expenditures	Controls over access to storage and receiving facilities	Implemented
			Expenditures	No documentation of physical inventory of equipment	Implemented
			Enterprise Fund	Controls over food service and DECA receipts	Implemented
			Enterprise Fund	Compliance with MnSCU procedures	Implemented

Minnesota State Colleges and Universities (MnSCU)

Anoka Technical College	03-24	FY 2001-2002	Financial Management	Security Access	Partially Resolved (See Finding 1)
			Financial Management	Monitor and follow up on receivables	Unresolved (See Finding 4)
			Financial Management	Controls over ATM	Implemented
			Financial Management	Lack of a loan contract	Implemented
			Financial Management	Lack of a written contract with the foundation	Implemented
			Enterprise Fund	Controls over bookstore and food service operations	Not Applicable (See Chapter 6)
			Enterprise Fund	Compliance with MnSCU procedures	Not Applicable (See Chapter 6)

Dakota County Technical College	03-34	FY 2000-2002	Tuition & Fees	Incompatible duties without mitigating controls	Partially Resolved (See Finding 1)
			Tuition & Fees	Documentation for backdated registration not retained	Implemented
			Expenditures	Lost discounts by not promptly paying invoices	Implemented
			Expenditures	Bookstore inventory not adequately safeguarded	Implemented
			Bookstore & Cafeteria Receipts	Lack of independent verification of receipts, and unusual void practices	Implemented

North Hennepin Community College	03-42	FY 2001-2002	Financial Management	Timely correction of errors in accounting system	Implemented
			Tuition	Waiving of tuition for employees	Implemented
			Payroll	Separation of duties	Implemented
			Expenditures	Encumbrance of funds	Implemented

Northland Community & Technical College	00-28	FY 1997-1999	Financial Management	MnSCU/MAPS reconciliations not performed	Not assessed
			Financial Management	Did not maintain sufficient insurance/collateral	Not assessed
			Expenditures	Documentation of bids/employee reimbursements	Implemented
			Expenditures	Controls over inventory	Substantially Resolved

Minnesota State Colleges and Universities (MnSCU)

			Enterprise Fund	Incompatible security	Not assessed
			Enterprise Fund	Inappropriate loan	Not assessed
Saint Paul College	03-31	FY 2000-2002	Financial Management	Resolution of differences in reconciliations	Implemented
			Financial Management	Security Access	Implemented
			Financial Management	Controls over MnSAT financial activities	Implemented
			Financial Management	Separation of duties over facility rental receipts	Implemented
			Financial Management	Calculation of indirect costs	Implemented
			Tuition	Controls over customized training receipts	Implemented
			Tuition	Review of backdated registrations and waivers	Implemented
			Tuition	Collections of third party receivables	Partially Resolved (See Finding 5)
			Payroll	Separation of duties	Implemented
			Payroll	Timely evaluations	Implemented
			Bookstore/ Cafeteria	Review of voided receipt transactions	Implemented
			Bookstore/ Cafeteria	Controls over cashiering function	Implemented

Note: The South Central College report (OLA Report 03-32) did not contain any findings.

Source: Auditor prepared.

Other Audit Coverage

The Office of the Chancellor contracts with certified public accounting firms to annually audit the MnSCU consolidated financial statements, several individual college and university financial statements, and to audit MnSCU's major federal programs in accordance with the Single Audit Act. The Office of the Chancellor and the individual colleges and universities received unqualified financial statement audit opinions for the years audited. As a part of the fiscal year 2005 audit, the external auditor of the consolidated financial statements issued a management letter to MnSCU's Board of Trustees. The letter contained five comments on accounting, administrative, and operating matters. One college with incompatible security access was cited in the management letter and is also included in Finding 1 of this report.

Legislative Audit Report 06-17, issued in June 2006, involved an audit of Lake Superior College for the three-year period ending June 30, 2005. The audit scope included control environment and financial management, tuition revenue, payroll and administrative expenses, and auxiliary enterprise activities. The report contained 26 audit findings and concluded significant concerns and inadequate internal controls to prevent errors and fraud. The college terminated its vice president of finance and administration and is working to address other weaknesses and compliance issues cited in the report.

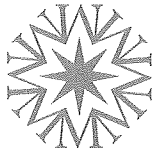
Minnesota State Colleges and Universities (MnSCU)

Legislative Audit Report 05-49, issued in September 2005, involved an audit of Anoka-Ramsey, Rainy River, and Vermilion Community Colleges, Fond du Lac Tribal and Community College, Mesabi Range Community and Technical College, Minnesota West Community and Technical College, and Minnesota State College-Southeast Technical, for a two or three year period ending June 30, 2004. The audit scope included tuition and fee revenues, payroll, administrative expenses, and security over accounting applications for those areas. The report contained 13 findings related to internal control and legal compliance issues. We did not follow-up on these findings during the current audit scope.

Legislative Audit Report 04-37, issued in September 2004, involved an audit of St. Cloud Technical College, and the Hibbing, Inver Hills, and Riverland Community Colleges for the three years ended June 30, 2003. We also audited Central Lakes College, Itasca Community College, and Normandale Community College for the two years ended June 30, 2003. The audit scope at each college included computer system access, tuition and fee revenues, payroll, and administrative expenditures. The report contained nine findings related to internal control and legal compliance issues. We did not follow-up on these findings during the current audit scope.

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. However, 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 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.



Minnesota
STATE COLLEGES
& UNIVERSITIES

October 12, 2006

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

Dear Mr. Nobles,

The purpose of this letter is to respond to the recently conducted selected scope audits of seven colleges.

The Office of the Legislative Auditor performs a vital part of our financial assurance program through its audits of the various colleges. The Board of Trustees, Chancellor McCormick and I strive to maintain an environment of the highest professional standards. The work of your staff has helped test that environment and provide continuing assurance that state laws and internal control procedures are in place and in force at our colleges and universities.

We have evaluated the seventeen findings and agree that corrective actions are needed to resolve these issues. The seven colleges have developed the action plans, as cited in this response, to implement the necessary improvements. We are particularly pleased that for the most part the report cites findings that are discrete matters that pose relatively low risk to these colleges. In our judgment, eleven of the findings are marginal issues that may have a limited impact on certain transactions, but do not have a significant affect on the major financial controls of these colleges. Nonetheless, we take every improvement opportunity seriously and will implement corrective actions.

The remaining six findings affect single or multiple colleges and will require process improvements at the colleges. We will undertake to remedy these circumstances.

On behalf of the presidents and financial management staff at each of the colleges and the Office of the Chancellor, please extend our appreciation to the audit managers and audit staff responsible for each of the audits.

Attached please find specific responses to the audit findings.

Laura M. King
Vice Chancellor - Chief Financial Officer

c: James H. McCormick, Chancellor
Selected Presidents and Chief Financial Officers

Minnesota State Colleges and Universities
Response to audit of Seven Colleges
Three years ended June 30, 2005

1. Certain colleges did not ensure that access to computerized business systems was adequately restricted and did not define mitigating detective controls.

Northland Community and Technical College will write comprehensive procedures requiring regular review of security rights to computerized business systems.

Responsible: The Vice President of Planning and Administrative Services and Director of Finance

Estimated Completion Date: December 31, 2006

South Central College will work on possible mitigating controls for the payroll area. All security for the business office will be reviewed.

Responsible: Vice President of Finance and Operations and the Director of Human Resources

Estimated Completion Date: March 2007

Anoka Technical College is in the process of developing written procedures for their detective controls.

Responsible: Chief Financial Officer

Estimated Completion Date: January 31, 2007

Dakota County Technical College has reviewed the access rights for all employees for incompatibilities. Due to staffing, not all incompatibilities could be eliminated. Where incompatibilities exist, mitigating controls have been put in place to reduce the risk of error or irregularity.

Responsible: Vice President of Finance and Operations and Accounting Supervisor
Completed

North Hennepin Community College has developed mitigating detective controls. Procedures will be developed to document the controls.

Responsible: Chief Financial Officer

Estimated Completion Date: December 31, 2006

2. Anoka Technical College did not charge board-approved tuition rates for some programs.

The College believes that the monetary and public relations cost of recovery and/or corrected billing outweigh any financial value to the institution. The viability of revenue recovery will be discussed with the Office of the Chancellor.

Responsible: Chief Financial Officer

Estimated Completion Date: December 31, 2006

3. Some colleges inappropriately used waiver transactions or did not document the rationale for backdated registration changes.

Anoka Technical College will provide adequate documentation for tuition waivers and back-dated registration cancellations.

Responsible: Chief Financial Officer

Estimated Completion Date: December 31, 2006

Northland Community and Technical College has a student appeal process that needs clarification. The procedures will provide better detail and will incorporate documentation requirements. A process for monitoring enforcement will be developed.

Responsible: Vice President of Academic Affairs and Student Services

Estimated Completion Date: January 16, 2007

North Hennepin Community College business office will work with the Center for Training and Development to improve the accounting for revenue, referrals and tuition waivers.

Responsible: Chief Financial Officer

Estimated Completion Date: March 31, 2007

4. **PRIOR FINDING NOT RESOLVED:** Two colleges did not have an adequate process to refer old accounts receivables to the Department of Revenue's Collection Division.

Anoka Technical College will further establish and implement processes for accounts receivables to actively pursue collection of past due accounts and will monitor the process quarterly.

Responsible: Chief Financial Officer

Estimated Completion Date: December 31, 2006

South Central College will establish a written accounts receivable management policy and become current with the backlog of outstanding debt.

Responsible: Vice President of Finance and Operations

Estimated Completion Date: March 2007

5. **PRIOR FINDING PARTIALLY RESOLVED:** Saint Paul College extended additional credit to third-party payers with unsettled accounts receivable balances.

Saint Paul College has a process in place to deny credit to third-party payers if there is an outstanding receivable from a prior semester.

Responsible: Business Manager

Completed

6. Three colleges did not deposit receipts or record some transactions in a timely manner.

Anoka Technical College has implemented a process for depositing prepaid tuition.

Responsible: Chief Financial Officer

Completed

South Central College will review and improve the current process.

Responsible: Vice President of Finance and Operations

Estimated Completion Date: January 2007

Saint Paul College has a process in place to verify that deposits are being recorded on a daily basis.

Responsible: Business Manager

Completed

7. Anoka Technical College did not determine the disposition of 18 old college-issued checks totaling \$3,426.

Anoka Technical College will supervise and monitor the college check writing process. Disposition of the 18 checks will take place.

Responsible: Chief Financial Officer

Estimated Completion Date: October 31, 2006

8. Alexandria Technical College did not adequately document negative receipt transactions when recording certain cash collections.

Alexandria Technical College is now documenting reasons for negative receipts and those reasons will be reviewed by an independent third party.

Responsible: Accounting Supervisor

Completed

9. **PRIOR FINDING NOT RESOLVED:** Alexandria Technical College did not have approved income contracts with some customized training clients.

Alexandria Technical College is aware of the importance of having signed income contracts prior to any service being provided.

Responsible: Dean of Customized Training

Estimated Completion Date: Immediately

10. One college did not prepare written agreements, and another college did not enter timely personnel assignments for certain customized training instructors.

Alexandria Technical College will obtain written agreements when regular college faculty members are hired to teach non-credit customized training courses.

Responsible: Dean of Customized Training and Director of Human Resources

Estimated Completion Date: Immediately

Anoka Technical College will develop a revised process for entering and authorizing Customized Training faculty assignments.

Responsible: Chief Financial Officer and Director of Human Resources

Estimated Completion Date: March 31, 2007

11. Two colleges did not tax certain employee expense reimbursements submitted over 60 days after the employees incurred the expenses.

Anoka Technical College has reviewed all employee expenses processed since July 1, 2005 and has worked with the Department of Finance to resolve any errors.

Responsible: Chief Financial Officer

Completed

South Central College will review expense reports that were turned in 60 days after the expense was incurred and will review the taxable status of those expenses. The business office will work with the Department of Finance to resolve any errors that might have been incurred.

Responsible: Vice President of Finance and Operations

Estimated Completion Date: December 31, 2006

12. Dakota County Technical College did not accurately calculate severance payments for three employees.

The inaccurate calculations have been corrected. Dakota County Technical College will have an additional employee review future calculations to verify the amount of severance payment.

Responsible: Vice President of Finance and Operations and Human Resources Director

Completed

13. Two colleges did not accurately record leave accruals earned for some employees.

Anoka Technical College believes this is an isolated occurrence and will adhere to the stipulations stated in the faculty contract in the future.

Responsible: Chief Financial Officer

Estimated Completion Date: Immediately

Dakota County Technical College corrected the leave accruals. Leave accruals now use an automated accrual calculation process. If a manual calculation is required, a second employee will verify the amount.

Responsible: Vice President of Finance and Operations and Human Resources Director

Completed

14. Northland Community and Technical College did not independently monitor employee payroll transactions.

Northland Community and Technical College will review the process and identify a department and/or personnel who will independently review the biweekly payroll register.

Responsible: Director of Human Resources and Director of Finance

Estimated Completion Date: January 2, 2007

15. Five colleges had specific internal control weaknesses with documenting, processing, and recording various expense transactions in the accounting system.

Anoka Technical College has revised its processes to better ensure compliance with MnSCU and college purchasing procedures.

Responsible: Chief Financial Officer

Completed

Northland Community and Technical College will post purchasing procedures on the college web site and the purchasing process will be closely monitored. Late payment of invoices will be monitored.

Responsible: Director of Finance

Estimated Completion Date: Immediately

South Central College will establish purchasing guidelines to resolve the direct pay and the authorization from the cost centers. Obligation dates and object codes will be reviewed more closely and the equipment module will be updated.

Responsible: Vice President of Finance and Operations

Estimated Completion Date: January 2006

Saint Paul College has procedures in place to update pricing in the software that produces the purchase order. Packing slips are reviewed, approved and dated and matched with the invoices for prompt payment with a correct occurrence date.

Responsible: Business Manager

Completed

North Hennepin Community College will tighten controls through training and reviews.

Responsible: Chief Financial Officer

Estimated Completion Date: December 31, 2006

16. South Central College does not have a written agreement to clarify its role and responsibilities as fiscal agent for an external organization.

South Central College has started working with a COMET representative to establish a written agreement.

Responsible: Vice President of Finance and Operations

Estimated Completion Date: March 2007

17. One employee at Alexandria Technical College did not comply with requirements governing frequent flyer miles.

Alexandria Technical College will remind employees of the travel-related statutes and procedures. Procedures will be developed to track frequent flyer miles for those traveling frequently and will recommend others not accrue miles. The frequent flyer miles will be recovered from the employee by having the employee purchase airfare using the accrued miles to deplete the miles earned while on state travel.

Responsible: Chief Financial Officer

Estimated Completion Date: November 2006