OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota State Colleges and Universities

Fiscal Years 2004 – 2006

September 18, 2007 07-25

Financial Audit Division

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

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, 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 Central Lakes College, Inver Hills, Normandale, and Riverland community colleges, Pine and Saint Cloud technical colleges, and Ridgewater College. Each of the audits covered fiscal years 2004, 2005, and 2006. In addition, our office conducted a separate review of security access and professional/technical contract services expended during fiscal year 2006 at other MnSCU institutions, including Metropolitan and Winona state universities, Minneapolis Community and Technical College, Minnesota State Community and Technical College, and the Office of the Chancellor.

Our audit scope at the seven colleges was limited to security over access to financial applications, tuition and fee revenues, payroll and administrative expenditures, professional/technical services contracts, banking and local cash, and grants at the Employment and Training Center at Pine Technical College. We emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges. The audit of professional/technical services included contracting practices followed by selected institutions and the Office of the Chancellor. 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 campuses and the Office of the Chancellor 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: June 15, 2007

Report Signed On: September 11, 2007

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Exit Conference

We discussed the results of the audit with the following staff of MnSCU at an exit conference on August 28, 2007. 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
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Linda Skallman	Associate Vice Chancellor, Human Resources
Alfred Essa	Associate Vice Chancellor, Deputy CIO
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
Kevin Marsh	Director of Financial Planning
Denise Kirkeby	Accounting Director
Ed Wines	Vice President of Finance, Normandale Community College
Robert Musgrove	President, Pine Technical College
Scott Thiss	Trustee, Audit Committee Chair

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

Central Lakes College, Pine Technical College, and Saint Cloud Technical College:

Michael Hassing, CPA, CISA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Patrick Phillips, CPA	Auditor-in-Charge
Jennifer Cooper	Auditor
Steve Johnson, CPA	Auditor
Bridgette Leonard	Auditor

Inver Hills, Normandale, and Riverland Community Colleges and Ridgewater College:

Brad White, CPA, CISA	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Tracy Gephard	Auditor
Carl Otto, CPA, CISA	Auditor
Tim Rekow	Auditor
Tenzin Tsering	Auditor

Systemwide Review of Professional/Technical Services Contracts:

Jim Riebe, CPA	Audit Manager
Marla Conroy, CPA, CISA	Auditor-in-Charge
Melanie Greufe	Auditor
Xin Wang	Auditor

Report Summary

Conclusions:

The higher education institutions of the Minnesota State Colleges and Universities (MnSCU) system included in our scope generally safeguarded assets and correctly recorded financial activity for the areas we examined. With certain exceptions, these colleges and universities complied with MnSCU policies and management's authorization for tested transactions.

Our report contains findings relating to internal control or legal compliance at several colleges and universities. Many findings in this report were raised in prior audits of other colleges.

Key Findings:

- Most colleges and universities we reviewed did not formalize, document, or test detective controls designed to mitigate the risks resulting from staff assigned incompatible financial duties. (Finding 1, page 8)
- Five colleges unnecessarily retained sensitive credit card information. MnSCU has not updated its procedures to guide college credit card record retention practices. (Finding 2, page 12)
- Colleges had controls over regular instructional assignments, but four colleges did not effectively control pay for supplemental assignments and severance, and six colleges did not accurately account for leave benefits. These weaknesses caused inaccurate payments to some faculty and administrators. (Findings 5 to 7, pages 19 – 21)
- Five colleges had control weaknesses with procuring, documenting, and recording expenses, and three had problems controlling equipment assets. (Findings 9 and 10, pages 26 – 28)
- Colleges, universities, and the Office of the Chancellor did not always comply with contract requirements for professional/ technical services. (Findings 13 to 18, pages 35 – 40)
- The Pine Technical College's Employment and Training Center programs may not comply with MnSCU's statutory mission. (Findings 23 and 24, pages 48 – 49)

Audit Scope:

Selected Colleges

- Central Lakes College
- Inver Hills Community College
- Normandale Community College
- Pine Technical College
- Ridgewater College
- Riverland Community College
- Saint Cloud Technical College

Four additional colleges and universities, and the Office of the Chancellor (fiscal year 2006 professional/technical services only)

Period Audited:

- Fiscal Years 2004 – 2006

Activities Audited:

- Security Access to Computerized Financial Applications
- Tuition and Fees
- Employee Payroll
- Professional/Technical Services
- Administrative Expenses
- Local Cash and Banking
- Employment and Training Center Programs at Pine Technical College

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 134,220 for fiscal year 2006, a slight decrease from 2005.

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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 MnSCU entities included in our scope and the specific financial activities 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:

- Central Lakes College
- Inver Hills Community College
- Normandale Community College
- Pine Technical College
- Ridgewater College
- Riverland Community College
- Saint Cloud Technical College

We limited our audit scope to the following areas: security over access to computerized accounting applications, tuition and fee revenues, payroll, administrative expenditures, including professional/technical services, and local cash and banking covering the three fiscal years 2004, 2005, and 2006. We also reviewed the financial activities of the Employment and Training Center at Pine Technical College. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions. In addition, we expanded our review of professional/technical contract services expended during fiscal year 2006 and related security access to include other MnSCU institutions, including Metropolitan and Winona state universities, Minneapolis Community and Technical College, Minnesota State Community and Technical College, and the Office of the Chancellor. We report the results of that work in Chapter 6. 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 system is comprised of 32 state universities, community colleges, technical colleges, and the Office of the Chancellor. *Minnesota Statutes* 2006, 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, 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 MnSCU's Integrated Statewide Record System to process and record financial activities. The computerized system consists of several modules, including purchasing, accounting, human resources, and student registration, among many others. 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. Money is held outside the state treasury to allow greater flexibility in managing high volume finances for financial aid, student activities, and auxiliary operations, such as bookstores and food services. The colleges often administer these funds in local bank accounts.

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 policy requires colleges to maintain reserve balances, which are part of the overall budget formula. MnSCU's Comprehensive Annual Financial Report provides additional information on its financial operations.

Minnesota State Colleges and Universities (MnSCU)

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

Table 1-1
Selected College Information
Fiscal Year 2006

College	Student FYE[1]	Faculty FTE[1]	Staff/ Administrator FTE[1]	Total Operating Revenue[2] (in 000's)	Total Operating Expenses (in 000's)
Central Lakes College	2,347	128	106	$26,642	$27,675
Inver Hills Community College	3,300	117	106	$26,564	$25,955
Normandale Community College	6,008	225	185	$46,607	$47,621
Pine Technical College	410	25	45	$ 8,520	$ 9,119
Ridgewater College	3,145	157	123	$34,000	$34,727
Riverland Community College	2,311	112	104	$24,457	$25,561
Saint Cloud Technical College	2,666	133	84	$26,052	$24,543

[1]FYE refers to the number of full-year equivalent students, and FTE refers to full-time equivalent positions.
[2]Total operating revenue includes tuition collections and state appropriations allocated to each college.

Source: Financial information obtained from the MnSCU Supplement to the Annual Financial Report for the year ended June 30, 2006, 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.

Control Monitoring

The MnSCU Office of the Chancellor developed a monitoring tool for important financial measures and completion of key internal controls for the individual colleges. Financial measures include such things as comparisons of projected to actual enrollment, budget to actual year-to-date spending, and accounts receivable as a percentage of annual revenues. The Office of the Chancellor also monitors completion of key controls, such as reconciling accounting systems and bank balances and the balancing of transfers.

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 MnSCU policies.

[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)

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 7 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 or university; others were applicable to several colleges.

In addition, Chapter 8 discusses our review of an unusual program at Pine Technical College, the Employment and Training Center. The center administered several social service and employment programs providing public assistance to eligible clients. These programs required a large commitment of college staff and other resources for activities that appeared to fall outside of the college's higher education mission.

The last section of our report identifies the Status of Prior Audit Issues for the seven specific colleges we reviewed. Any unresolved findings are included in our current report. Many of the findings in the current report were similar to findings raised in prior audits of different colleges.

Chapter 2. Security Access to Financial Applications

Chapter Conclusions

Most colleges and universities did not formalize, document, or test detective controls designed to mitigate the risks resulting from staff assigned incompatible financial duties.

Audit Objective

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

- Did college and university 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 and universities 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 and universities 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. The Office of the Chancellor developed user groups to review and revise its security profiles for tuition and accounts receivable, purchasing and accounts payable, 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.

When a college assigns incompatible security profiles to different employees, they prevent one employee from handling a financial transaction from beginning to completion without the involvement of other staff. However, often due to staffing limitations, some colleges need to assign an employee to incompatible security profiles. In these situations, the college needs to have controls that will mitigate the resulting risks. These controls should be designed to detect errors or irregularities, should they occur, and typically involve after-the-fact reviews of the employee's work and tracing of recorded transactions to supporting evidence.

Finding and Recommendations

1. Most colleges and universities that we reviewed did not formalize, document or test detective controls designed to mitigate the risks resulting from staff assigned incompatible financial duties.

MnSCU colleges authorized incompatible employee access to financial systems without formalizing and documenting alternative controls designed to detect errors or fraud should they occur. The Office of the Chancellor identified incompatible security groups that colleges should avoid; however, most colleges and universities we reviewed provided their staff with incompatible access and placed a greater emphasis on detective controls to mitigate the risk. The shift towards detective rather than preventive controls requires that colleges and universities have a more structured and documented internal control plan. Providing employees with security profiles that create incompatible access to MnSCU's financial systems, without clearly defined and verified detective controls, increased the risk that fraudulent transactions could occur without detection.

Six of the seven colleges had employees with incompatible access for recording various aspects of tuition and student receivables: Central Lakes College (9 staff), Inver Hills Community College (6 staff), Normandale Community College (6 staff), Pine Technical College (3 staff), Riverland Community College (6 staff), and Ridgewater College (9 staff). Although these colleges stated that they had detective controls to ensure that transactions were appropriate, five colleges did not have written guidelines describing those controls nor documentation to show that those controls were completed. (As an alternative to designing its own detective controls, Pine Technical College entered into an agreement with MnSCU's campus assistance unit to provide for an independent review.) In addition, large numbers of college staff had access to security groups that update registration records and student addresses. These functions were considered incompatible based on MnSCU's security grids, and colleges had not defined or documented detective controls.

Seven MnSCU colleges and universities have not separated staff ability to initiate procurements from payments to vendors and contractors. Six of the seven colleges had financial staff with incompatible access to initiate procurements and also make vendor payments: Central Lakes College (5 staff), Inver Hills Community College (6 staff), Normandale Community College (6 staff), Pine Technical College (2 staff), Riverland Community College (2 staff), and Ridgewater College (10 staff). In addition, our review of professional/technical contracts identified that Metropolitan State University (5 staff) had granted excessive access and did not separate staff ability to post contract procurements from those making contractor payments. Ideally, the procurement and payment processes should be segregated to provide an appropriate level of control over expenses. These colleges generally felt that reviews by managers of cost center reports were sufficient to mitigate the risk of unauthorized or inappropriate purchases. While those cost center report reviews create ability to detect problems; the extent and quality of the review varies from manager to manager. After-the-fact report reviews are of lower quality than preventive controls where functional duties are assigned to different individuals. Separation of functional duties avoids the risk of having one employee control the transaction from procurement through payment. Notably, Saint Cloud Technical College was able to segregate incompatible access resulting in effective separation of financial duties.

While the Office of the Chancellor does not require justification when colleges and universities request incompatible access for employees, it designed security profiles to avoid this situation. Colleges and universities should have a legitimate business need for the incompatible access, such as a lack of sufficient staff to adequately segregate incompatible duties. When college and university management allow employees to have incompatible access they should ensure that effective controls are in place and being used to detect errors and irregularities if they occur.

None of the colleges or universities 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. They 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 fraud identified as part of the review. Also, the guidelines should require that the performance of the control be documented and verifiable so that management can be assured of its performance.

Three colleges and one university also did not remove former staff from the access they had to the accounting and purchasing system's security groups. MnSCU had an automated process to deactivate staff upon termination of employment so former employees could not log into MnSCU systems; however, this process did not delete those users' rights to security groups in the accounting or purchasing applications. Former employees at Metropolitan State University (4 staff), Minneapolis Community and Technical College (2 staff), Normandale Community College (2 staff), and Ridgewater College (1 staff) did not have their access removed. Without doing this, and despite being deactivated, the former employees continue to be identified on the college security reports making review of these reports less effective. These former staff also could potentially access the data of their former employer if reemployed at another MnSCU college or university.

Recommendations

- *The applicable college or university should define, document, and test detective controls designed to mitigate the risks resulting from staff assigned incompatible financial duties.*

- *The applicable MnSCU colleges should delete former employees' access rights to various accounting and purchasing security groups even though those rights have been deactivated.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

The colleges' internal controls provided reasonable assurance that they accurately assessed, collected, and safeguarded tuition and fees, pursued delinquent receivables, properly reported tuition and fees in the accounting records, and complied with applicable legal provisions and management's authorization. However, some colleges unnecessarily retained student credit card documents, which they should destroy in a timely and secure manner. In addition, backdated registration changes were not documented at one college, and, at another college, resulted in overpayments of tuition refunds. Finally, one college allowed cashiers to share cash drawers and did not adequately document negative receipt transactions.

For the items tested, the colleges complied with significant finance-related legal provisions for tuition rates, waivers, and receivables.

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 accurately assessed, collected, and safeguarded tuition and fee revenues; pursued uncollected receivables; properly recorded transactions in the accounting system; and complied with applicable policies and management's authorization?

- For the items tested, did the colleges comply with MnSCU policies governing tuition rates, tuition waivers, and accounts receivables?

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 accounts receivable module processes and records the receipt transactions associated with tuition and fees.

Table 3-1 shows the tuition and fee revenue collected and waivers processed by the colleges during fiscal year 2006.

Table 3-1
Tuition and Fee Revenue by College (in $000's)
Fiscal Year 2006

College	Tuition and Fees	Student Waivers	Employee Waivers	Net Revenue
Central Lakes College	$ 9,627	$(154)	$ (60)	$ 9,413
Inver Hills Community College	14,054	(280)	(60)	13,714
Normandale Community College	23,925	(110)	(89)	23,926
Pine Technical College	1,525	(2)	(6)	1,517
Ridgewater College	12,935	(138)	(68)	12,729
Riverland Community College	9,147	(60)	(47)	9,040
Saint Cloud Technical College	10,494	(68)	(64)	10,362
Total	$81,707	$(812)	$(394)	$80,501

Source: MnSCU Accounting System for fiscal year 2006, as of December 31, 2006.

Findings and Recommendations

2. Five colleges unnecessarily retained sensitive credit card documents.

Inver Hills, Normandale, and Riverland community colleges and Central Lakes and Ridgewater colleges retained full credit card information (including credit card numbers and expiration dates) on paper receipts supporting over-the-counter tuition collections. Many colleges had this sensitive information dating back to the 1990s, when they began accepting credit card payments. Four of the colleges also had bookstores, food service, automotive, and other college programs that inappropriately retained credit card documents. In addition, the dental program at Normandale Community College electronically stored sensitive credit card information in computer software used to manage their patient dental records.

Retaining credit card information on paper or electronic records creates an unnecessary risk exposure for the colleges, and this sensitive information should be destroyed promptly in a secured manner. Saint Cloud Technical College had an effective practice of shredding these tuition credit card documents after about six months or when the semester ended.

In December 2006, the MnSCU Office of the Chancellor distributed payment card industry data security standards[2] to the colleges. Those standards, applicable under college credit card merchant agreements, specify that documents with cardholder and sensitive authentication data be secured and appropriately destroyed so that cardholder data cannot be reconstructed. However, MnSCU has not developed procedures to assure colleges have practices to comply with these requirements and to guide college decisions on retention period and acceptable methods of destruction.

[2] Payment Card Industry Data Security Standard, Version 1.1, issued in September 2006 by the PCI Security Standards Council. The document describes 12 payment card industry data security standard requirements organized in six logically-related groups called "control objectives."

Recommendations

- *The MnSCU Office of the Chancellor should assist colleges in identifying and developing appropriate practices to comply with payment card industry standards.*

- *The five colleges should destroy all credit card receipts in a secured manner.*

3. Three colleges had weaknesses with backdated registration changes or waivers, including one college where backdated registration changes resulted in some overpaid tuition refunds.

One college did not document the rationale for backdated registration changes, and another college's use of backdated registration changes caused them to overpay some tuition refunds. A third college did not track employee tuition waivers. Backdated registration changes pose a financial risk by canceling the student's registration and eliminating the charges. Some are necessary to realign student registrations with system course changes, and a documented explanation may be sufficient to justify what occurred. However, in other cases, colleges should use the tuition waiver transaction, which does not eliminate the registration but does remove the charges. Backdated and waiver transactions are high-risk because they allow college staff to alter a student's balance owed and reduce the college's revenue without detection.

Three colleges had the following weaknesses with their documentation and use of backdated registration changes or tuition waivers:

- Riverland Community College continued to have problems documenting justification or authorization for some backdated registrations. The college was unable to provide evidence supporting seven of fifteen backdated registration changes that we tested. As a result of a prior audit finding, the college adopted the use of a form to independently authorize and document the purpose for registration changes. However, the college could not locate these documents for some recent semesters tested. Sometimes staff updated either the reason or the authorizer in the registration system, but without the documents the information could not be substantiated.

- Normandale Community College made backdated registration changes that caused five students to be refunded more tuition than they paid. The five students were overpaid tuition refunds totaling $1,553. The students received a partial refund early in the semester and subsequently received a full refund after they were approved for a full withdrawal through the college's formal appeals process. For example, one student received a $708 refund after withdrawing within the eligible timeframe for a 25 percent refund of the tuition paid. The student appealed the circumstances and was later approved for a full withdrawal. However, the student was excessively refunded the full $2,832 of tuition paid instead of the remaining 75 percent that had not yet been refunded. Rather than using a tuition waiver, the college made changes to the student's registrations and did not coordinate the $708 previously refunded. We expanded testing and identified four similar situations causing those students to be overpaid refunds totaling $845.

- Inver Hills Community College did not have an accurate system to monitor tuition waivers granted to employees. MnSCU employee contracts limit the number of credits[3] that employees or their dependents can receive without paying tuition. However, the college's human resources office did not always accurately post the actual credits waived to the records they used to ensure credits do not accumulate in excess of the annual contract limit. Two of six items tested had a different number of credits actually waived by the business office than was shown in the human resources records. In addition, during fiscal years 2004 through 2006, waiver records showed nine employees that had incomplete information. The records contained several question marks instead of an actual number of semester credits.

Recommendations

- *Riverland Community College should ensure evidence supporting backdated registration changes is retained and independently reviewed.*

- *Normandale Community College should review its practices for entering backdated registration changes and coordination of those registration changes on tuition refunds. College management should pursue recovery of the overpaid tuition refunds.*

- *Inver Hills Community College should accurately monitor employee tuition waivers granted each fiscal year and update incomplete records for actual credits waived. The college's human resources office should periodically compare the tracking record to the number of credits actually waived by the business office.*

4. Central Lakes College cashiers shared cash drawers and also did not adequately document negative receipt transactions when recording certain cash collections.

Central Lakes College had two weaknesses with tuition collections. Cashiers shared the same tuition cash drawer and also did not adequately document transactions that reduced cash balances in the MnSCU accounting system. These control weaknesses, when coupled together, heighten the potential for theft without detection.

By allowing cashiers to share the same cash drawer, the college lost the ability to identify which cashier processed certain student collections, including negative transactions, as discussed below. The practice of sharing cash drawers makes it difficult to track any cash overages/ shortages to a specific cashier. Separate cash drawers increase accountability and protect a cashier from responsibility for a shortage caused by another cashier.

[3] MnSCU bargaining unit contracts generally allow employees or their dependents to enroll for up to 16 semester credits per year without payment of tuition (payment of fees is required). However, *Minnesota State College Faculty* contract 2005-2007, Article 24, Section 3 provides faculty with tuition waivers up to 24 credits per year or their spouse or dependents can receive up to 16 credits per year.

College cashiers recorded negative transactions on five of ten days of cash activity tested. Negative cash receipt transactions are voids of processed receipt transactions. The cashiers used the accounting system cash session much like a cash register to track the money collected for the day. However, the cashiers did not document the reasons for the negative transactions on four days tested, 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. There is an increased risk of theft because the same person that collected the cash can reduce the amount posted into the accounting system.

Recommendations

- *Central Lakes College should require that cashiers have independent cash sessions and separate cash drawers to allow for accountability of collections and any resulting shortages.*

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

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Chapter 4. Personnel/Payroll

Chapter Conclusions

The colleges' internal controls provided reasonable assurance that it accurately compensated staff for work performed and regular instructional assignments, properly recorded personnel and payroll transactions in the accounting records, and complied with applicable legal provisions and management's authorization. However, colleges did not have effective control over supplemental work assignments, and some colleges paid for courses not taught or work not performed. In addition, two colleges did not accurately calculate some faculty severance payments, and six colleges did not accurately maintain leave records for some employees.

For the items tested, the colleges complied with material finance-related legal provisions governing personnel and payroll. However, applicable colleges should resolve compensation and severance errors and correct leave balances found in noncompliance with employee contract provisions.

Audit Objectives

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

- Did the colleges' internal controls provide reasonable assurance that it accurately compensated employees for work performed, maintained accurate employee leave records, properly recorded payroll expense transactions in the accounting system, and complied with applicable legal provisions and management's authorization?

- For the items tested, did the colleges comply with significant finance-related MnSCU policies governing personnel and payroll and employee contract provisions governing compensation and leave benefits?

Background Information

Payroll costs are the most significant operating costs for the colleges. MnSCU uses the state's payroll system[4] to process payroll checks and MnSCU's State Colleges and Universities Personnel Payroll System to manage personnel information. Table 4-1 shows the payroll expenses for fiscal years 2004-2006 for the colleges included in the audit scope.

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

Table 4-1
Employee Payroll Costs by College (in $000's)
Fiscal Years 2004-2006

College	FY 2004	FY 2005	FY 2006
Central Lakes College	$ 17,374	$ 18,019	$18,192
Inver Hills Community College	17,174	17,969	19,157
Normandale Community College	29,683	31,987	34,309
Pine Technical College	4,941	4,924	5,709
Ridgewater College	21,263	21,262	21,977
Riverland Community College	16,670	16,933	17,581
Saint Cloud Technical College	15,466	16,536	18,079
Total	$122,571	$127,630	$135,004

Source: MnSCU personnel system for fiscal years 2004, 2005, and 2006, as of December 31, 2006.

College employee compensation and workload vary based on type of worker. The college pays classified[5] employees hourly based on biweekly timesheets. Administrator compensation is based on assigned duty days, and they are also compensated for extended duty days when responsibilities are added. Faculty compensation is based on annual credit-based instructional assignments, and overload is paid when they teach more than 30 or 32 credits[6] for the academic year. Additional compensation is also paid when they teach during summer sessions. Faculty can also receive supplemental compensation for any of the other noninstructional assignments, such as when they collect an honorarium, substitute teach, or perform work on grants. Academic deans typically approve supplemental work assigned to their faculty and staff. Table 4-2 shows the total amount of supplemental pay for each college over the three-year audit period.

Table 4-2
Supplemental Compensation[1] by College (in $000's)
Fiscal Years 2004-2006

College	FY 2004	FY 2005	FY 2006
Central Lakes College	$ 826	$ 829	$1,183
Inver Hills Community College	891	976	1,008
Normandale Community College	1,919	1,970	2,129
Pine Technical College	110	117	107
Ridgewater College	745	739	917
Riverland Community College	1,162	1,193	1,217
Saint Cloud Technical College	907	1,008	1,073
Total	$6,560	$6,832	$7,634

[1]Supplemental compensation includes faculty assignments for overload, summer school, honorariums, other noninstructional projects, and various types of administrator extended duty days.

Source: MnSCU personnel system for fiscal years 2004, 2005, and 2006, as of December 31, 2006.

MnSCU identified that two colleges in our audit scope erroneously overpaid post-employment health insurance benefits provided to some retired faculty. MnSCU subsequently agreed to

[5] Classified employees include clerical, information technology, and maintenance workers covered by various state bargaining units.
[6] The Minnesota State College Faculty agreement for 2005-2007 provides that faculty that previously operated under the Minnesota Community College Faculty Association contract must teach 30 credits before being eligible for overload. Faculty that previously operated under the Unified Technical College Employee contract must teach 32 credits before being eligible for overload.

require repayment of half of the overpaid amount, up to a maximum of $4,000 each, from the retirees affected. Saint Cloud Technical College has resolved recovery of 40 percent of the $27,356 it overpaid for six retirees. The MnSCU Office of the Chancellor is assisting Ridgewater College to recover half of the $186,396 it overpaid for health insurance to 27 retirees.

Findings and Recommendations

5. Colleges did not have effective controls over supplement pay assignments to faculty and administrators.

Several colleges did not have controls ensuring they only paid for additional courses taught or extra duty days worked. Faculty and administrator workload frequently changes, increasing the risk of errors in their compensation. Personnel assignments for routine instructional and administrative duties are rolled forward from year to year; however, supplemental assignments pose an increased risk due to the irregular nature and demand for those responsibilities. Administrator duties change or faculty course offerings are impacted by enrollment and quickly added or removed just prior to the start of the semester. Riverland Community College had an effective practice of comparing their personnel system assignments to the final course load reflected in the registration system. However, other colleges did not have effective human resources controls to ensure they are only paying for the supplemental work or courses actually held. As a result, colleges did not detect the following types of compensation errors made to their employees.

- Inver Hills Community College had no process to document or authorize supplemental work assignments. The college inappropriately paid one employee for supplemental work assignments that they did not work or teach ($3,915) and alternatively did not compensate two faculty members ($4,575 and $2,273) for courses they actually taught. The college did not have a process to authorize and document the legitimacy of supplemental work assignments for faculty overload and administrator extra duty days assigned to administrators. Subsequent to our audit, the college's human resources office began to detect and pursue recovery of seven additional overpayments to employees throughout 2007 ranging from $611 to $4,800 for assignments not worked or courses not taught.

- Normandale Community College overpaid one faculty member $5,860 for a course that was not taught. The course was initially scheduled but was subsequently dropped due to lack of sufficient enrollment. The academic department did not report the change to the human resources office, allowing the employee to continue to be paid.

- Pine Technical College had insufficient controls to ensure that it accurately compensated faculty for overload when their course load exceeded 32 credits. The college underpaid one faculty member $4,345 for an overload course.

- Ridgewater College testing did not reveal any overpayments; however, the college had no control process assuring that they were only compensating staff for work performed or courses held. We encouraged the college to consider the effective process practiced by Riverland Community College.

In addition, several colleges coded faculty assignments funded through federal and private grants as honorariums/stipends. MnSCU's faculty contract[7] limits honorariums/stipends to $1,000. Miscoding of other costs to the honorarium/stipends code makes it difficult to use information in the accounting system to monitor compliance with this contract term. MnSCU's personnel system does not contain a specific code for grant assignments.

Recommendations

- *Inver Hills and Normandale community colleges, Pine Technical College, and Ridgewater College should improve authorization controls over supplemental assignments and compare their SCUPPS personnel assignments to the final courses reflected in the registration system.*

- *The applicable MnSCU colleges should recover overpayments for courses not taught or work not performed or pay employees for uncompensated work performed. The colleges should review overload or supplemental assignments for other faculty and administrators to ensure they were properly paid.*

- *The Office of the Chancellor should create a supplemental assignment code for grant assignments in the SCUPPS personnel system.*

6. Two colleges did not accurately calculate severance payments for several employees.

Inver Hills Community College and Ridgewater College did not accurately calculate severance payments made to several former faculty members upon termination. The colleges used the wrong leave balance or an inaccurate salary when calculating the severance payment; no one independently reviewed the calculation to ensure the accuracy.

Calculation errors at Inver Hills Community College resulted in underpaid severance ranging from $49 to $19,141 for four former employees and overpaid severance ranging from $40 to $198 to three others. More problematic was that the college had no documents to support their calculations of the severance amounts paid. A documented calculation allows an independent reviewer to detect obvious mistakes. For example, the $19,141 underpayment was caused by mistakenly multiplying sick leave days times an hourly salary rate rather than a daily salary rate.

Ridgewater College's severance calculation errors caused four employees to be underpaid from $6 to $530. An independent second review would have detected these mistakes.

[7] The Minnesota State College Faculty agreement for 2005-2007, Article 13, Section 9 provides faculty members shall not earn more than one thousand dollars ($1,000) of honorariums and/or stipends in any fiscal year.

Recommendations

- *Inver Hills Community College and Ridgewater College should resolve severance payment errors made to former employees.*

- *The colleges should improve control over the accuracy of severance payments by documenting the calculation and having it reviewed by a second employee for accuracy.*

7. Colleges did not accurately account for some faculty and administrator leave and did not always eliminate leave balances for terminated employees.

Six colleges made errors in determining leave earned by certain faculty members. In addition, four colleges did not accurately reduce leave balances for sick leave taken by some faculty and sick and vacation leave taken by administrators. Errors in tracking sick and vacation leave earned and taken can result in inaccurate severance and vacation liquidation payments when an employee terminates employment at a future time. Errors in faculty personal leave do not impact payments due at termination but may cause an employee to be denied paid leave they are entitled to under the terms of the contract.

➢ Colleges did not properly accrue leave earned for part-time and adjunct faculty and miscalculated leave accrued for faculty that worked during summer sessions. The colleges had several different types of errors in sick and personal[8] leave accruals, as discussed below:

  – Colleges did not distinguish between adjunct and part-time faculty[9] and mistakenly provided adjunct faculty with sick leave benefits in the leave accounting module. The module has automated leave accrual calculations that allowed adjunct faculty to accrue leave. Colleges should have manually adjusted these excessive accruals. Because faculty credit load can vary from semester to semester and faculty can alternate between adjunct and part-time status, colleges need to better monitor faculty not teaching a full credit load. In addition, Saint Cloud Technical College duplicated leave accruals to 16 part-time faculty. Colleges need to review and adjust sick leave balances for several adjunct and part-time faculty that were inappropriately provided sick leave.

  – Colleges' prorated sick leave earned for full-time faculty working summer school; however, the faculty contract specifies a different calculation. 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, colleges mistakenly recorded fractional days of earned sick leave typically causing all faculty members teaching summer session to accrue the wrong amount.

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[8]The Minnesota State College Faculty agreement for 2005-2007, Article 14, Section 5 provides college faculty with personal leave instead of vacation leave. A full-time faculty member earns two personal days each academic year up to a maximum of 10 days.

[9]The Minnesota State College Faculty agreement for 2005-2007 defines 'adjunct' faculty as those that teach less than five credits in a semester and are not eligible for leave. Part-time faculty teach five or more credits in a semester, but below full-time status, and earn prorated leave based on their credit load.

– Colleges did not properly accrue personal leave for some faculty members in 2004. The 2003-2005 faculty contract was not signed until February 2004 and increased personal leave limit from eight to ten days. The faculty that were at the eight-day maximum should have accrued the two additional days of personal leave granted by the new fiscal year 2004 provision. However, colleges did not retroactively adjust personal leave balances for several faculty members who were previously at the eight-day limit.

- Colleges did not always properly post leave taken for faculty and administrators. The leave posted in the leave module sometimes differed from the vacation and sick leave recorded on administrators' timesheets or recorded on faculty members' personal or sick leave usage forms. Because no one independently verified the accuracy of leave data entered to the timesheets or leave forms, the differences went unnoticed. Academic departments often held faculty leave forms and did not routinely route them to the college personnel offices for timely and accurate posting.

- Colleges did not always reduce vacation and sick leave balances for amounts liquidated and forfeited at termination. Often, colleges allowed liquidated and forfeited leave balances to remain on the former employees' inactivated accounts. MnSCU has not established a required procedure to provide for consistent practices among its colleges.

- Ridgewater College provided duplicate floating holidays[10] to three classified hourly staff. Bargaining unit contracts for classified employees provide each employee with one floating holiday per fiscal year. The state's payroll system has no edit to prevent or detect when a college posts more than one floating holiday for an employee.

Recommendations

- *The applicable colleges should review and correct errors in leave earned for adjunct, part-time, and summer school faculty. Colleges should have an independent employee review the accuracy of leave recorded in the personnel system.*

- *Colleges should ensure that leave taken is timely and accurately reduced from faculty and administrator leave balances.*

- *The MnSCU Office of the Chancellor should establish a required practice for reducing liquidated and forfeited leave balances.*

- *Ridgewater College should review floating holidays posted to payroll records and reduce an employee's vacation balance for any duplicate floating holidays provided.*

[10] A floating holiday is an additional paid day off from work that can be taken any time during the fiscal year.

8. Pine Technical College did not independently monitor payroll transactions entered into the state's payroll system for classified hourly staff.

Pine 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 policies[11] require 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

- *Pine Technical College should have someone independent of the payroll function review the payroll register.*

[11] State Employee Management System (SEMA4) Policy PAY0028.

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Chapter 5. Administrative and Operating Expenses

Chapter Conclusions

Colleges generally had adequate internal control practices to procure and process vendor payments for administrative and operating expenses. However, six colleges had internal control weaknesses with documenting, processing, and recording of expense transactions in the accounting system. The colleges also had breakdowns with asset safeguarding controls due to unrecorded equipment purchases and lack of accountability for equipment disposals. These weaknesses increase the risk of theft of college equipment without detection. In addition, three colleges inappropriately used vendor-issued credit cards and had unresolved balances. Two colleges did not always obtain itemized receipts supporting credit card purchases made by employees increasing the risk of inappropriate and noncompliant transactions.

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 MnSCU purchasing, disbursement, and credit card requirements.

Audit Objectives

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

- Did the colleges' internal controls provide reasonable assurance that they properly procured goods and services, accurately and promptly paid vendors for goods received and services rendered, safeguarded college equipment assets, properly recorded expense transactions in the accounting system, and complied with applicable policies and management's authorization?

- For the items tested, did colleges comply with MnSCU policies governing procurement, contracts, and payment transactions?

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. Colleges match invoices against the encumbered procurements and record vendor payments into the accounting system. MnSCU's accounting system then interfaces transactions into the state's system for preparation of the vendor warrant or transfer of funds. Table 5-1 summarizes the nonpayroll administrative and operating expenses for fiscal year 2006 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. We did not review transactions related to financial aid.

Table 5-1
Administrative and Operating Expenses (in $000's)
Fiscal Year 2006

College	Purchased Services	Utilities	Supplies	Supplies for Resale	Equipment and Capital Improvements	Other[1]
Central Lakes College	$ 914	$ 809	$ 1,896	$1,259	$ 1,785	$ 653
Inver Hills Community College	1,218	614	1,378	1,794	4,414	594
Normandale Community College	1,768	831	2,697	2,953	681	936
Pine Technical College	189	122	367	210	324	224
Ridgewater College	985	855	2,754	1,962	2,258	795
Riverland Community College	1,400	730	1,521	1,155	509	733
Saint Cloud Technical College	825	457	1,740	1,580	8,228	952
Total	$7,299	$4,418	$12,353	$10,913	$18,199	$4,887

[1]Other expenses include travel and other miscellaneous expenses.

Source: MnSCU Accounting System for fiscal year 2006, as of December 31, 2006.

Findings and Recommendations

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

Five colleges had 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. College academic and program departments did not always provide business office staff with timely and necessary documents to facilitate effective control and compliance with board procedures. We tested a variety of transactions and encountered several exceptions that revealed weaknesses in key internal controls. Following is a list of the types of problems encountered at each college:

Central Lakes College

- missing required procurement documentation, including requisitions, purchase orders, requests for proposals, and other price quotes for several transactions;
- incurring obligations before encumbering funds in the accounting system; and
- making payments up to $56,000 in excess of encumbered amounts.

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Inver Hills Community College
- incorrectly coding transaction obligation dates for numerous capital construction payments, causing $501,307 to be reported in the wrong fiscal year.

Normandale Community College
- overpaying several water and sewer utility charges totaling $2,267;
- paying credit card charges after the due date causing $104 of late fees in 2006;
- incorrectly coding transaction obligation dates for fiscal year 2006 credit card purchases causing $2,510 to be recorded in fiscal year 2007; and
- missing invoices and procurement documents for two vendor payments.

Pine Technical College
- making obligations before encumbering funds;
- increasing the accounting system encumbrance after they receive the invoice;
- paying five uncontested invoices from two days up to two months late;
- incorrect coding of object codes for five transactions tested; and
- missing invoices, authorized purchase requisitions, and procurement documents supporting some payments tested.

Ridgewater College
- using purchase orders rather than construction contracts for large parking lot paving and resurfacing projects totaling $45,779 and $21,410;
- procuring of large equipment items (mower, fork lift, and tractor) totaling $50,225 by 2004 plant operations staff without encumbrance and authorization of the college's business office;
- procuring of nursing workstations ($19,445) and computer software ($19,376) without justifying the sole source nature of the acquisition; and
- incorrectly coding transaction obligation dates by using the "okay to pay" date rather than the date the goods were received or services rendered.

The MnSCU Board of Trustees has established some very specific policies[12] governing procurement, contracts, and payments that they expect colleges to follow. Colleges that do not adhere to those policies inappropriately increase their financial risk and deviate from the board's governance it deemed important to the system and its operation.

Recommendation

- *The applicable colleges should strengthen controls to ensure compliance with MnSCU and college purchasing policies and to accurately report financial activities in the accounting system.*

[12] MnSCU Board of Trustees, System Policies, Chapters 5 through 7.

10. Three colleges did not effectively control equipment additions and disposals.

Three colleges did not have effective controls to ensure that all purchased equipment over $5,000 was added to the inventory records. In addition, the colleges did not have a structured process to control the disposal of equipment no longer needed and removing those items from the inventory records. The lack of a structured disposals process allowed discarded items to remain on equipment inventory records and interfered with the college's physical inventory process. Without accurate inventory records, including accountability for disposals, the college cannot effectively detect equipment actually missing or stolen.

MnSCU has a process to reconcile recorded equipment purchases to items added to the asset records; however, this process failed when colleges incorrectly coded equipment purchases in the accounting system. The following colleges had equipment purchases that were not recorded on the fixed asset inventory.

- Normandale Community College purchased $76,785 of computer hardware and a large multimedia system upgrade that included $15,801 of computer equipment. Because the college incorrectly coded both of these purchases as supplies rather than equipment, they failed to identify them as items that needed to be added to the fixed asset inventory. In addition, the college's equipment policy calls for inventorying of sensitive items, such as computers, audio-visual equipment, and lab instruments. The college did not assign asset numbers to 5 of the 45 items that were part of a $96,000 audio-visual equipment purchase and did not update the inventory records for these sensitive items. The college also purchased a $1,045 digital camera that it did not add to the inventory records, and its assigned asset number was actually on a different camera. An employee with responsibility for this sensitive equipment could have easily stolen this camera without detection.

- Ridgewater College purchased a used truck for $11,909 and a trailer for $5,818, and neither purchase was added to the inventory records. The college also prepared purchase orders after the purchase had occurred. Because the college used its local checking account for these purchases, and the state treasury reimbursement did not identify the equipment purchase, the equipment reconciliation was not effective in identifying that these items should have been added to the inventory records.

MnSCU procedure[13] requires colleges to remove equipment no longer in use from the equipment inventory records. Three colleges primarily removed items from the inventory list when a physical inventory could not locate them. College staff responsible for fixed asset items should be required to promptly report to the business office the loss of any fixed asset items and request approval from the business office before disposing of fixed asset items. Lack of a structured disposal process makes the physical inventory process ineffective and inefficient. Following are exceptions noted at three colleges:

- Normandale Community College's 2006 physical inventory resulted in the removal of approximately 1,200 assets from inventory. For example, physical inventory records

[13] MnSCU Procedure 7.3.6, Part 5D.

included notations that a $6,800 sterilizer was replaced, $37,000 of medical equipment was recycled, and that $20,000 of biology equipment had never been in the possession of the academic program it was assigned to. The removal of these items from the inventory records should have occurred at the time of disposal with documentation showing proper authorization for the disposal.

- Ridgewater College's 2007 physical inventory could not locate welding equipment that cost $16,576. Physical inventory notations indicated that it was traded in. Because the staff did not notify the business office at the time of the trade in, the equipment remained on the inventory records.

- Riverland Community College had a structured disposal process for reporting discarded equipment; however, the college's 2007 physical inventory could not locate six pieces of equipment, totaling $84,963, that cost over $10,000 each. During the college's 2005 physical inventory, 67 items were removed because they could not be found. If the departments had followed the college's disposal policy, they would have notified the business office of the disposals and inventory records would have been updated.

Recommendations

- *Normandale Community College and Ridgewater College should ensure that all equipment purchases are updated in the asset inventory records.*

- *Normandale Community College, Ridgewater College, and Riverland Community College should improve accountability and timeliness for reporting equipment disposals.*

11. Three colleges inappropriately used vendor-issued credit cards.

Three colleges had vendor-issued credit cards to purchase goods from specific retailers. Vendor-issued cards do not allow for competitive procurement of goods and may unfairly increase the volume of purchases with that vendor. Also, these cards are not formally assigned to a college employee for accountability, and anyone in possession of the card can make purchases up to the credit limit. Although MnSCU Procedure 7.3.3 allows a college to establish a financial institution credit card in the name of the college and in the name of a state employee, it does not explicitly authorize the use of vendor issued credit cards. Financial institution credit cards can be used at any number of vendors and allows for a more competitive purchasing environment.

Concerns were raised with three colleges that used vendor-issued charge cards:

- Pine Technical College had inadequate controls over 19 vendor-issued cards with the same major retailer along with other store and gasoline cards. College employees made over $55,000 of purchases with these vendor-issued credit cards during fiscal years 2004, 2005, and 2006. The usual process was for staff to check out the vendor cards from the college's business office to make purchases and then return the card with supporting receipts for purchased items. However, the cards were not always adequately secured, the staff that checked out the cards was not always identified, and the cards were not promptly returned after purchases were made. In addition, some of the cards appeared to have never been used, which indicates that they are not needed.

- Ridgewater College had vendor-issued cards with six major retailers. College employees used the cards to make purchases totaling about $153,000 for fiscal years 2004, 2005, and 2006. One account had a $3,000 delinquent balance possibly dating as far back as 1999. The college disputes this balance and is working with the retailers to research the transaction's history. The research is complicated because of a change in ownership of the credit card company several years ago. In addition, the college inefficiently made multiple small payments on the accounts each month rather than one combined payment at the end of the month.

- Riverland Community College had a vendor-issued card that it used to purchase $21,600 of office supplies at a nearby major retailer. While the college had effective controls over individual purchases, it did not resolve discrepancies between the monthly statement and its transaction documentation. As a result, the account had a $461 credit balance that may have occurred because of a purchase return or misposted payment.

Recommendations

- *Pine Technical College, Riverland Community College, and Ridgewater College should discontinue the use of vendor-issued credit cards and resolve and/or pay off balances on those credit cards.*

- *The Office of the Chancellor should revise MnSCU Procedure 7.3.3 to specifically prohibit use of vendor-issued credit cards and improve clarification of types of allowed financial-institution credit cards.*

12. Two colleges did not always obtain receipts from employees making credit card purchases.

Two colleges did not have original receipts supporting several purchases made by staff using vendor-issued credit cards or financial institution credit cards. MnSCU Procedure 7.3.3 requires original itemized receipts for goods and services and allows for an employee to file an affidavit if the receipt is lost. Without this key evidence, employees could purchase inappropriate items or items for personal use without detection. The credit card statement does not provide itemized details for individual purchases to allow for an effective review. Itemized details of what was actually purchased are only available on the original receipts.

- Normandale Community College made a total of over $50,000 of credit card purchases since they began using financial institution cards in August 2005. The college did not have original receipts to support 155 of 192 purchases charged on the cards.

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- Ridgewater College employees charged $290,000 of purchases on their financial institution cards and $153,000 on vendor-issued credit cards for fiscal years 2004 through 2006. Forty of 180 credit card purchases tested for fiscal year 2006 did not have original receipts. Several of the undocumented credit card charges appeared to be Internet purchases where a confirmation could have been printed and turned into the business office.

Recommendation

- *Normandale Community College and Ridgewater College should require original receipts from staff to support credit card purchases. If a receipt is lost, the employee may file an affidavit to support the purchase.*

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Chapter 6. Professional/Technical Services Contracts

Chapter Conclusions

MnSCU's internal controls generally provided reasonable assurance that the colleges and universities included in our scope paid for professional/technical services actually received, that contracts were authorized and payments complied with the terms of the contract, and that professional/technical contract expense transactions were accurately recorded in the accounting system. However, the MnSCU accounting system does not currently provide the ability to effectively monitor compliance with board policies and procedures governing professional/technical services contracts. Some contracts were not encumbered and authorized before work started, did not have the appropriate Office of the Chancellor approval, or were not amended when necessary. An enhanced system may provide MnSCU management with improved ability to monitor contract compliance.

For the professional/technical services contracts and expenses we tested, MnSCU generally complied with applicable legal provisions with some exceptions.

Objectives

Our review of professional/technical services contract expenses focused on the following questions:

- Did the internal controls provide reasonable assurance that the colleges supported expenses for professional/technical services with authorized contract documents, received the contracted services, recorded the transactions accurately 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, including contract requirements contained in board policies?

Background Information

Contracts for professional/technical services are for services that are intellectual in nature and include consultation, analysis, evaluation, prediction, planning, programming, or recommendation. Generally, MnSCU personnel are unable to perform the needed services, and the colleges and universities must contract with outside vendors. Even though MnSCU is exempt from *Minnesota Statutes* 2006, chapter 16C and the Department of Administration's oversight, it has established system-wide contracting policies and procedures. The Office of the Chancellor oversees the execution of professional/technical services contracts generally. MnSCU procedures require that all contracts over $50,000 be approved by the vice chancellor, chief financial officer.

The scope of our audit of MnSCU professional/technical services contracts included two components. First, at the seven institutions included in the scope of this report, we audited professional/technical services contract expenditures for fiscal years 2004, 2005, and 2006. Second, as part of a separate audit of the state's processes for professional/technical services contracts, we completed additional work at five other MnSCU entities for the one-year period from July 1, 2005, through June 30, 2006.

Scope of Institution Audits

We reviewed professional technical services contracts during audits at seven colleges. Table 6-1 summarizes professional/technical contract expenses for those colleges for fiscal year 2004 through 2006.

Table 6-1
Professional/Technical Contract Services[1] Expenses (in $000's)
Fiscal Years 2004-2006

College	FY 2004	FY 2005	FY 2006
Central Lakes College	$ 564	$ 654	$ 800
Inver Hills Community College	1,070	837	892
Normandale Community College	671	980	1,502
Pine Technical College	462	413	551
Ridgewater College	790	908	1,160
Riverland Community College	950	481	347
Saint Cloud Technical College	889	746	827
Total	$5,396	$5,019	$6,079

[1]Expenses exclude professional/technical services contracts for capital construction contracts.

Source: MnSCU Accounting System for fiscal years 2004, 2005, and 2006, as of December 31, 2006.

Scope and Methodology for Statewide Review of Professional/Technical Services Contracts

In determining the scope of our statewide review of professional/technical services contracts at MnSCU, we considered other audit coverage of MnSCU contracts to avoid duplication of effort. Therefore, we excluded Capital Fund and Revenue Bond Fund contracts from our scope because the MnSCU Office of Internal Auditing completed an audit of capital construction administration in May 2006.[14] We also excluded contracts funded with federal money because of Single Audit coverage. In addition, we excluded the MnSCU Retirement Fund since our office had audited the contract with the vendor for the administration of that fund in an earlier audit.

[14] MnSCU Office of Internal Auditing Reference Number 2006-05-002.

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In analyzing the remaining professional/technical services contract expenditures, we identified five MnSCU entities for audit. Table 6-2 summarizes professional technical contract expenses for fiscal year 2006 for the Office of the Chancellor and four colleges included in our audit scope. We selected a total of 15 contracts to audit from these additional entities.

Table 6-2
Professional/Technical Services Contract Expenses[1] (in $000's)
Fiscal Year 2006

MnSCU Institution	FY 2006
Office of the Chancellor	$4,780
Metropolitan State University	1,762
Minneapolis Community and Technical College	1,366
Minnesota State Community and Technical College	684
Winona State University	1,045
Total	$9,637

[1] Expenses exclude professional/technical services expenses for the Capital Fund, Revenue Bond Fund, Federal Fund, and Retirement Fund.

Source: MnSCU accounting system cash basis amounts from July 1, 2005 to June 30, 2006.

As a result of our audit of professional/technical services contracts at seven colleges and the additional MnSCU institutions we included in our audit scope of the state's professional/technical services contracting procedures, we identified the following findings:[15]

Findings and Recommendations

13. MnSCU's accounting system does not provide the ability to effectively monitor compliance with statutory requirements, board contracting policies, and contract terms.

Several MnSCU entities had instances of noncompliance with state statutes and board procedures that are presented in subsequent findings in this chapter. The exceptions included:
- not encumbering funds prior to executing contracts;
- not having signed contracts before vendors started work;
- not executing formal contracts or contract amendments to procure professional/technical services;
- not going through formal bidding and solicitations when required; and
- not obtaining the authorization of the vice chancellor, chief financial officer when necessary.

[15] In 2005, management provided system-wide training on contracting policies and procedures. Also in 2005, MnSCU's Office of Internal Auditing reviewed capital construction contract expenditures and identified similar contracting findings. In response to that audit, MnSCU management provided additional training and enhanced procedures to improve compliance; however, colleges did not implement those measures until after the scope of our audit.

By enhancing the accounting system for professional/technical services contracts, MnSCU management would be better able to monitor compliance both at the system-wide level and at individual institutions, and to determine necessary corrective action plans. Unlike the state's accounting system, the MnSCU accounting system does not capture certain information that would allow management to actively monitor contracts and associated expenses to determine compliance with applicable requirements. For example, the accounting system does not require that a unique contract number be established. The accounting system also does not preclude institutions from using purchase orders when contracts for professional/technical services should be prepared. Multiple contract or purchase orders make it difficult to determine if total expenses comply with the terms of the contract. Also, the accounting system does not identify violations to the requirement that money be encumbered before incurring contract obligations. Enhancements to the accounting system would allow management to better monitor compliance with statutory requirements and the board's contracting policies and procedures by analyzing detailed accounting transactions.

Recommendations

- *MnSCU should require that a unique contract number be established for each contract, including amendments.*

- *The Office of the Chancellor should consider enhancing accounting system capabilities to track information on contracts and contract expenses to allow improved monitoring of professional/technical services contracts. Alternatively, management could study the feasibility of using the contracts module in the state's accounting system for this purpose.*

14. For certain contracts, the Office of the Chancellor did not comply with statutory requirements and board policies that require funds be encumbered prior to incurring obligations.

Certain MnSCU contracts did not have assurance the sufficient money was set aside prior to starting the contract. *Minnesota Statutes* and board procedures[16] preclude MnSCU from executing contracts before funds are encumbered. The intent of the requirement is to ensure MnSCU has sufficient money available to commit to the contract before a legal obligation exists.

The Office of the Chancellor had two contracts with Talus Group ($96,000 and $48,000) and one contract with Pacific Partners Consulting ($35,000) where work started before funds were encumbered. In the case of Pacific Partners Consulting, after the contract expired, the vendor continued to provide services, and the Office of the Chancellor did not execute another contract with the vendor for about six months.

For these exceptions, documentation explaining why the violation occurred and how noncompliance would be avoided in the future was not prepared, and subsequent authorization of the violations was not obtained.

[16] *Minnesota Statutes* 2006, 16A.15, subd. 3, and MnSCU Board Procedure 5.14.2, Part 4.

Recommendation

- *MnSCU management should identify and monitor violations of contracting statutes and board policies to ensure the necessary corrective action is taken.*

15. The Office of the Chancellor and three colleges did not enter into formal contracts, execute contract amendments, or had other compliance exceptions for some work done by professional/technical services contractors.

The Office of the Chancellor and three colleges did not comply with MnSCU Procedure 5.14.2 by not entering into formal contracts or amendments for professional/technical services, as outlined below. In addition, the Office of the Chancellor and one college did not obtain approval from the vice chancellor, chief financial officer for procuring professional/technical services over $50,000.[17] Also, one college did not comply with the payment terms included in the contract.

- The Office of the Chancellor contracted with Inspec, Inc. for roof management inspection and reporting services. The obligation stated in the contract was $157,000. Subsequently, instead of formally amending the contract, the Office of the Chancellor prepared two purchase orders to reflect changes to the original contract terms. The total value of the purchase orders was $166,991. The vice chancellor, chief financial officer did not review and approve the contract or the purchase orders.

- Inver Hills Community College did not further amend a $50,350 contract ($25,350 original plus $25,000 amendment) for an additional $9,307 it paid to the contractor in excess of the contract amount. The college also did not obtain MnSCU Office of the Chancellor approval, as required by MnSCU procedure. In addition, the college inappropriately reimbursed the contractor for travel costs even though the contract specified that travel costs would not be reimbursed. To increase the amount encumbered in the accounting system and allow the accounting system to process the payment, the college entered a 'forced encumbrance' for the excess amount. Without a formal contract amendment, it is not clear whether the excess amount was authorized and proper. Perhaps the college should not have paid the additional cost and required the contractor to complete the work within the contract amount initially authorized.

- Central Lakes College did not execute a professional/technical service contract for $6,461 of graphic design work done to promote its Staples campus. The design work involved creating and copywriting postcards and newspaper advertisements. MnSCU contract guidelines[18] require a contract any time a service is predominately intellectual in character.

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[17] MnSCU Procedure 5.14.2 requires contracts over $50,000 require written approval from the vice chancellor, chief financial officer.
[18] MnSCU General Contract Guidelines Handbook, October 2002, Section 13.

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- Normandale Community College did not follow MnSCU procedure[19] requiring that contracts with attorneys or law firms include a key restriction on their work. The college entered into a professional/technical services contract with a law firm for $5,000 to perform workplace resolution services; however, the contract did not contain the following required restriction: "Contractor's duties do not include providing legal services to the state within the meaning of *Minnesota Statutes* 2006, 8.06." MnSCU included this restriction in its contract template for legal services; however, the college neglected to use this template. Without the restrictive clause, the contractor could have mistakenly expanded their legal services beyond the intended scope of the contract.

MnSCU assumes additional risk and legal exposure when it does not negotiate and authorize formal contracts and contract amendments for professional/technical services. Without legally binding contracts or amendments, there could be misunderstandings and disputes over services to be provided, unclear timetable for when they are to provide and bill services, and insurance and liability issues could arise.

Recommendation

- *The Office of the Chancellor, colleges, and universities should enter into formal contracts when obtaining professional/technical services and comply with contract terms and MnSCU procedures.*

16. Metropolitan State University did not comply with MnSCU procedures governing professional/technical services contracts.

Metropolitan State University did not comply with MnSCU procedures on two of the three professional/technical services contracts tested - a contract with Bryant Rolstad Consultants to provide a customized educational program and a contract (collaborative agreement) with HealthPartners Institute to provide medical education for a nursing program. As of May 17, 2007, total expenses incurred for the contracts were $1,324,928 and $125,200, respectively. The university did not comply with the following requirements for either contract:

– The university did not follow competitive bidding requirements[20] for contracts over $50,000; it did not prepare requests for proposals or formal solicitations.

– The university did not specify the amount of its financial obligation in the contracts.

– The university did not limit the term of the contracts to five years, as required by MnSCU procedures.[21] The contract with Bryant Rolstad Consultants was effective in 2001 and was amended to expire on December 31, 2010. The contract with HealthPartners Institute for medical education began in 2003 and did not specify an expiration date.

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[19] MnSCU Procedure 5.14.2, part 10, subpart A.
[20] MnSCU Board Procedure 5.14.2, part 6, subpart C.
[21] MnSCU Board Procedure 5.14.2, part 6, subpart C.

Instead, the agreement contained an automatic renewal clause for successive one year periods, unless either party gave written notice of intent not to renew the contract.

– The university did not obtain approval from the vice chancellor, chief financial officer for the contracts, as required for contracts that exceed $50,000.[22]

Recommendations

- *Metropolitan State University should comply with statutory and MnSCU professional/technical contracting policies and procedures.*

- *The Office of the Chancellor should provide more oversight and monitoring of Metropolitan State University's professional/technical services contracts. Monitoring should include an analysis of professional/technical contract expenditures processed in the accounting system.*

17. The Office of the Chancellor did not properly administer contracts with a vendor.

The Office of the Chancellor negotiated four contracts and three amendments with Talus Group to provide same types of design, programming, testing, and other database services. The original contract for $48,000 was signed on March 8, 2005, and the services were to be provided by June 30, 2005. Three additional contracts and three additional amendments almost quadrupled the cost of the original obligation to $236,400 and extended the term of the contract through March 31, 2007. The vice chancellor, chief financial officer did approve the first amendment, because the total of the original contract value and that amendment exceeded $50,000. However, several of the subsequent contracts and amendments were just below the $50,000 threshold that would have required a formal solicitation and additional authorization by the vice chancellor, chief financial officer.

Recommendation

- *The Office of the Chancellor should properly estimate the cost and duration of professional/technical services contract.*

18. MnSCU board procedures do not include certain best practices when contracting for professional/technical services.

MnSCU's professional/technical contracting procedures do not include several key best practices contract concepts. For example, the procedures do not require contracts to have a retainage clause requiring the college to withhold a portion of the contract payments pending satisfactory completion of the contract and do not require the colleges to ensure that they do not contract with vendors who are on federal and state lists of suspended and debarred vendors. In addition,

[22] MnSCU Board Procedure 5.14.2, part 2.

colleges are not required to prepare evaluations on the quality of vendor performance for completed contracts. Each of these procedures is intended to ensure that the professional/ technical services are provided by qualified vendors, and that the vendors provide satisfactory services under the contract. MnSCU construction contracts do contain some of these key provisions, such as withholding ten percent of the contract amount, to ensure the vendor provides satisfactory services.

Recommendation

- *MnSCU should consider adding retainage, suspension and debarment, and performance evaluation requirements to MnSCU procedures.*

Chapter 7. Banking and Local Cash

Chapter Conclusions

The colleges' internal controls generally provided reasonable assurance that bank and credit card arrangements were properly solicited, cash/coin levels were limited for college receipting areas, local cash inflows and outflows were controlled, and local cash activities were properly recorded in the accounting system and were in compliance with applicable policies and management's authorization. However, some colleges allowed staff to share cash drawers and did not verify the integrity of financial data used to support commissions earned for outsourced services.

The colleges complied with MnSCU policies governing local cash accounts and banking arrangement provisions for the items tested, except that some colleges did not promptly deposit receipts exceeding $250 daily, as required by statutes and MnSCU policy.

Audit Objectives

Our audit of local cash and banking activities at the selected colleges focused on the following questions:

- Did the colleges' internal controls provide reasonable assurance that they properly solicited bank and credit card arrangements, limited cash/coin levels for college receipting areas, controlled local cash inflows and outflows, recorded local cash activities in the accounting system, and complied with applicable policies and management's authorization?

- For the items tested, did the colleges comply with MnSCU policies governing local cash accounts and banking arrangements?

Background Information

MnSCU colleges and universities use the MnSCU Integrated Statewide Record System (ISRS). The system's accounting module processes and records the revenue transactions. Tuition and fees represent the majority of college revenue and are collected at the business office. However, colleges have numerous other receipt collection points at bookstores, daycare centers, food service, and vending operations. Other receipts are collected by college training programs that provide direct services to citizens, such as automotive repair, cosmetology, and dental services.

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Some colleges have merchant agreements to provide credit card collection processing in programs where services are provided to the public.

All receipts are deposited to the colleges' designated local bank accounts. The State Treasurer sweeps tuition and other money out of the local bank accounts and into the state treasury based on the accounting entries interfaced from the MnSCU accounting system to the state's accounting system. MnSCU colleges manage their cash and investments for any local funds not swept into the state treasury. For example, tuition and fee revenues are swept into the state treasury while bookstore and food service receipts are retained in the local account and invested by the college.

MnSCU procedure[23] describes guidelines that each college must follow for banking and investment of local funds, managing risk, and ensuring sufficiency of required collateral. In August 2006, the procedure was updated to require that colleges rebid their local banking institutions every five years. Riverland Community College, Central Lakes College, and Pine and Saint Cloud technical colleges have not rebid banking relationships that exceed the five-year limit. Three of the colleges stated they are aware of the rebidding requirement and were planning to do this. One college, however, believed they had five years subsequent to the new requirement to rebid their bank despite the fact they have used the same bank since the MnSCU merger in 1996.

Findings and Recommendations

19. Three colleges did not comply with prompt deposit requirements.

Three colleges did not always deposit money collected outside of the business office in compliance with state law and MnSCU policy. *Minnesota Statutes*[24] require receipts accumulating over $250 to be deposited daily. Correspondingly, MnSCU policy[25] requires that all receipts shall be deposited daily unless such receipts are less than $250.

Three colleges held receipts onsite in a safe or secured area; however, it increased risk of theft by not promptly depositing those receipts in the bank:

- Inver Hills Community College operates a daycare center to care for children of students while attending class. The daycare collected receipts totaling $650,563 for fiscal years 2004, 2005, and 2006, and daily receipts typically exceeded $250. During the period from July 1, 2005, through December 31, 2006, the college did not promptly deposit 23 deposits exceeding $250; the college held the funds from 5 to 11 days. The largest of these deposits totaled $6,800. The college should reevaluate its current practice of having business office personnel periodically pick up receipts. Alternatively, the college should make the daycare responsible to drop off those receipts daily at the college business office.

[23] MnSCU Procedure 7.5.1, Part 6.
[24] *Minnesota Statute* 2006, 16A.275.
[25] MnSCU Policy 7.5, Part 2, Subpart C.

- Riverland Community College trains students in cosmetology that offers services to the general public. The program collected approximately $178,000 over the three fiscal years reviewed. The cosmetology department stored the daily receipts in its safe until picked up by the business office; however, business office staff indicated that at times there is no one there to open the safe for them. From July 1, 2005, to December 31, 2006, the college made 25 deposits of cosmetology receipts exceeding $250 five to seventeen days later than required by statute and MnSCU policy. The largest delayed deposit totaled $2,896.

- Ridgewater College operates an auto parts store for vehicles repaired as part of the auto mechanics technology program. Students in the program perform work on engines, transmissions, alignment and brakes, and many other areas. The program collected over $50,000 for fiscal years 2004, 2005, and 2006. During the period from July 1, 2005, to December 31, 2006, deposits were often delayed from 5 to 13 days despite collecting receipts in excess of $250. The largest untimely deposit totaled $7,600.

Recommendation

- *Inver Hills and Riverland community colleges and Ridgewater College should promptly deposit all receipts that accumulate over $250 on a daily basis.*

20. Many colleges had cashiers in auxiliary collection areas that shared cash drawers.

Central Lakes and Ridgewater colleges, Normandale and Riverland community colleges, and Saint Cloud Technical College had cashiers in their bookstores, food service, or other auxiliary collection areas that shared cash register entries and commingled cash drawers. Ideally, each cash register user should be assigned an independent cash drawer to coincide with the sales and voids they rang into the cash register. This practice allows any cash shortages and cash register voids to be identified to a particular user, and it also serves to protect the other cashiers that did not cause the shortage. The colleges felt the limited number of staff in these areas made the use of separate cash drawers inefficient, and that the risk was minimized by the immaterial level of collections in these areas. However, some of the areas have student workers performing cashier duties, many of these areas annually collected over $50,000, and these collections were usually cash and coin, which are more susceptible to loss.

College management should assess the cost-benefit of having separate cash sessions and drawers for auxiliary collection areas. If colleges continue to permit multiple cashiers to share cash registers and commingle cash, they should develop stringent detective controls, including regular documented independent reviews of daily overages and shortages. An additional cost-effective option could involve having separate cash drawers during peak periods, such as the heavy volume of textbook purchasing at the beginning of each semester.

Recommendation

- *The colleges should evaluate the cost-benefit of sharing cash registers and cash drawers. If separate cash accountability is not achieved, the colleges should develop appropriate detective controls.*

21. One college did not have a current contract with its childcare provider.

Saint Cloud Technical College did not have a current written lease agreement with the vendor that provided childcare services at the college. In March 2004, the college amended its 1998 contract with the vendor to extend the terms of the contract through June 30, 2004. However, the college had not extended the contract beyond that date and did not rebid the space lease used by the childcare provider. The risk of misunderstanding and litigation increases when the college does not have a formal current agreement for the space it leases to third parties.

Recommendation

- *Saint Cloud Technical College should obtain a formal written agreement with the private company leasing the childcare facility.*

22. Three colleges did not verify the integrity of financial information supporting commissions earned from outsourced operations.

Three colleges did not verify that private service providers paid the proper amount of commission. Contracts with those companies contained a provision providing the college with the ability to verify sales reported and used on the calculation of the commission earned. Although the colleges recalculated the commission, they did not verify the accuracy of the sales figure, a key component of that calculation. Some minimal effort could be highly effective towards assuring reasonableness of those commissions. Without periodic verification, or a monitoring of sales patterns at a minimum, the amount of commission earned could be understated. In addition, as of December 31, 2006, one college had not received its fiscal year 2006 commission earned through June 30, 2006.

- Inver Hills Community College did not verify food service sales data and no longer monitored monthly sales trends. Commissions totaled $33,819 for fiscal years 2004, 2005, and 2006. The company that operated the college's food service submitted a monthly commission report documenting sales and sent a monthly commission check. However, college staff did not verify the sales data used to derive the commission, and since June 2006 had not maintained spreadsheets to monitor revenue trends. At a minimum, the use of an analytic monitoring procedure is a very low cost option that provides the college with an assurance that the sales trends and commission rates appear reasonable.

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- Normandale Community College did not verify financial information for its outsourced food service and daycare operations. Food service commissions totaled $68,846 for fiscal years 2004, 2005, and 2006. Daycare commissions totaled $12,865 for fiscal years 2004 and 2005; however, the college had collected only $3,000 of its fiscal year 2006 commission of $12,943 as of December 31, 2006. Both agreements provide the college with access to vendor records in order to corroborate sales information used to calculate the commission; however, the college has not done this.

- Riverland Community College did not verify sales information used to compute the food service and vending commissions. Because food service commissions did not have a separate cost center, we did not quantify annual commission revenues; however, for April 2006 and May 2006, the commissions totaled $2,528 and $1,829, respectively. Vending commissions totaled $21,365 for fiscal years 2004, 2005, and 2006. The college did not verify the sales figures used to calculate the commission earned. In addition, the food service vendor used the same April 2006 sales figures to support the commission they paid to the college for April 2006 and May 2006.

The benefit of verifying the accuracy of commission paid would outweigh the staff time required to verify the basis for the calculation or perform analytic reviews to assess the trends and reasonableness of commission money submitted.

Recommendation

- *Inver Hills, Normandale, and Riverland community colleges should periodically verify or monitor sales trends used to determine commissions paid to the colleges for outsourced revenue-producing operations.*

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Chapter 8. Pine Technical College - Employment and Training Center

Chapter Conclusions

Pine Technical College's Employment Training Center provided services that may not comply with MnSCU's statutory mission. The college should work with the Board of Trustees and Office of the Chancellor to review how these programs fit the higher education mission of the college. In addition, the college did not fully recover indirect costs associated with the operations of the center.

Pine Technical College's internal controls provided reasonable assurance that Employment and Training Center financial activities were properly administered, grant revenues and client aid/service payments were accurately reported in the accounting records, and were in compliance with applicable legal provisions, including grant requirements and management's authorization.

For the items tested, the college complied with the significant finance-related legal provisions in providing public assistance to clients.

Audit Objective

The primary objective of our review of the Pine Technical College's Employment and Training Center was to address the following questions:

- Did Pine Technical College's Employment and Training Center provide services that complied with MnSCU's statutory mission?
- Did the Employment and Training Center's internal controls provide reasonable assurance it properly administered its financial activities related to social service and employment programs, properly recorded grant revenue and expenditures in the accounting records, and complied with applicable grant agreements and management's authorizations?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning social service and employment program expenditures?

Background Information

A substantial part of Pine Technical College's financial resources resulted from the operation of its Employment and Training Center. The center, a division of Pine Technical College, administered social service programs and related employment services to support businesses and people who live or work in east central Minnesota.[26] The center has contracts with the various county health and human services offices to administer the programs. Federal, state, county, and other grants provided program and administrative funding for the center. The college received 53 percent more in grants for the center than the tuition it collected for its academic programs. Table 8-1 compares the center's revenue with the college's tuition revenue.

Table 8-1
Pine Technical College Tuition and Employment and Training Center Revenues
Fiscal Years 2004-2006

	2004	2005	2006
Center grant revenues	$2,374,000	$1,867,000	$2,343,000
Tuition and Fees	$1,639,000	$1,511,000	$1,525,000

Source: MnSCU Accounting System as of December 31, 2006.

Table 8-2 briefly describes programs administered through the center. None of these programs have a clear link to the college's academic curriculum or are focused on the college's student population.

Table 8-2
Employment and Training Center Programs
Fiscal Year 2006

Diversionary Work Program - helps families seeking public assistance for the first time. Participants work with job counselors to identify barriers to work and build skills to meet demands of business and industry. This four month program is offered in Chisago, Isanti, Kanabec, Mille Lacs, and Pine counties.

Minnesota Family Investment Program - An employment services program for public assistance families still seeking employment after four months on the Diversity Work Program. This program is built on four goals: (1) help families increase their income; (2) support families' transition to self-sufficiency; (3) prevent welfare from becoming a long-term source of primary income; (4) simplify the system.

Food Stamp Employment and Training Program - assists food stamp recipients in finding permanent work. This is accomplished by helping participants learn about the world of work by providing workshops and individual case management services.

Childcare Assistance Program for Isanti County - provides daycare aid while a participant is going to school, looking for work, or earning a lower wage.

Childcare Resource and Referrals Program - provides assistance in locating care, providing individual referrals for childcare, consulting on how to select a provider, information about licensing regulations, and information about special services available in the communities for parents. It serves 17 counties throughout northeastern Minnesota from offices located in Pine City, Duluth, and Cass Lake.

Partnerships - The ETC is also a partner in several grant projects that assist working families with education, childcare, transportation, and family stability throughout the five-county area (Region 7E). These projects include integrated services, ways to work, and families forward. These projects apply new strategies to help families move off public assistance and into the workforce by using work/family coaches, worksite mentors, one-on-one employment readiness counseling, transportation projects, and skill development.

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

[26] In addition to Pine Technical College's main Employment and Training Center office, the center also has staff working at three county offices – Chisago, Isanti, and Mille Lacs.

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Pine Technical College's Employment and Training Center had the following weaknesses in its internal control and legal compliance:

Findings and Recommendations

23. Pine Technical College's Employment Training Center provided services that may not comply with MnSCU's statutory mission.

Pine Technical College's Employment and Training Center provided services that may not comply with MnSCU's statutory mission. *Minnesota Statutes*[27] define MnSCU's mission as providing programs of study to meet the needs of students and further defines the mission of a MnSCU technical college as providing vocational training and education to prepare students for skilled occupations. The college's Employment and Training Center did not have a clear link into the college's academic curriculum and did not primarily serve the student population.

The college's Employment and Training Center delivered social services and employment programs to clients. It entered into joint powers agreements with three counties to operate the programs. The center's employees are employed by the college and account for about one-third of the college's employees.

Certainly there is a connection between education and employment. Often the key to moving a person from social service dependency to the workforce involves education and training. MnSCU's strategic plan recognizes its need to provide programs and services integral to state and regional economic needs. These programs provide valuable services. However, rather than working collaboratively with the social service agencies to promote and provide educational opportunities as an aid to moving students from welfare to work, the college took on the administrative duties of state and county social services and employment offices.[28] Some of the services the Employment and Training Center's employees provided were enrollment into various social service programs, assistance with basic needs and skills, and help with finding childcare. Center social workers sometimes provided services in the client's home or made purchases on the client's behalf at local businesses.

Other MnSCU colleges have a variety of community partnerships and employment training programs and most technical colleges offer customized training programs to local employers. However, these colleges established external contractual relationships to provide job training programs, rather than a direct social service delivery responsibility. For example, Saint Cloud Technical College leases space at the college to the Department of Employment and Economic Development to operate a WorkForce Center. This is basically a lease arrangement; job

[27] *Minnesota Statutes* 2006, 136F.05 and 135A.052.

[28] Minnesota's departments of Human Services and Employment and Economic Development have primary responsibility for delivering social services and employment service programs to the citizens of the state. Social service programs are generally administered through a state/county partnership, with the state providing the financial resources, and the counties providing direct client contact. Employment programs are generally administered through the state's WorkForce Centers.

counselors and caseworkers of the WorkForce Center are employees of the Department of Employment and Economic Development.

The Office of the Chancellor did not seem to be fully aware of the scope of the operations of the Employment and Training Center.

Recommendation

- *The MnSCU board, the Office of the Chancellor, and Pine Technical College should review the services provided by the Employment and Training Center and ensure its services comply with MnSCU's statutory mission.*

24. Pine Technical College did not fully recover indirect costs associated with its Employment Training Center.

The college did not fully recover the costs of operating the Employment Training Center. MnSCU procedures[29] require the college to quantify program costs that are paid centrally, including costs associated with administrative oversight, business office and information technology services, and facility use and to determine how they should allocate those costs to the specific programs, grants, or cost centers. The college estimated the center's share of such costs to be about $200,000 per fiscal year and expected the center to reimburse the college for these costs. The center was unable to pay the full amount and only reimbursed the college $103,721 and $20,000 in fiscal years 2004 and 2006, respectively, and it did not reimburse the college for any indirect costs for fiscal year 2005.

Recommendation

- *Pine Technical College should collect its share of indirect costs allocated to the Employment and Training Center.*

[29] MnSCU Procedure 7.3.4, Cost Allocation.

Status of Prior Audit Issues
As of June 15, 2007

Most Recent College Audits

The following table 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 related to areas included in our scope but may not have followed up on other areas. Overall, MnSCU colleges fully or substantially implemented most of the prior audit recommendations. Findings involving areas outside of our current audit scope were not assessed, any material unresolved or partially resolved findings are included in our current report.

Status of OLA Prior Audit Recommendations
As of June 15, 2007

College	OLA Report	Scope	Audit Area	Issue	Status
Central Lakes College	04-37	FY 2002-2003	Tuition	Documentation for backdated registration changes not retained	Implemented
			Expenses	Expense transactions not correctly coded	Implemented
Inver Hills Community College	04-37	FY 2001-2003	Receivables and Expenses	Security access	Partially Resolved (See Finding 1)
			Tuition	No written tuition waiver guidelines	Implemented
Normandale Community College	04-37	FY 2002-2003	Personnel/Payroll	Key system report not generated and reviewed	Implemented
Riverland Community College	04-37	FY 2001-2003	Tuition	Documentation for backdated registration changes not retained	Partially Resolved (See Finding 3)
			Tuition	Delinquent Farm Management Program accounts not referred for collection	Unresolved but Immaterial Area
			Tuition	No written tuition waiver guidelines	Implemented
			Personnel/Payroll	Security access	Implemented

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College	OLA Report	Scope	Audit Area	Issue	Status
Ridgewater College	03-52	FY 2001-2003	Tuition	Controls over receivable adjustments	Implemented
			Personnel	Untimely faculty evaluations	Not Assessed
			Expenses	Untimely bookstore payments	Implemented

Pine Technical College	03-44	FY 2000-2002	Financial Management	No audit of college foundation	Not Assessed
			Tuition	Security access	Implemented
			Tuition	Weaknesses involving backdated registration changes and waivers	Implemented
			Tuition	Unauthorized tuition rate	Implemented
			Payroll	Untimely reimbursement of clearing account	Implemented
			Expenses	Security Access	Unresolved (See Finding 1)
			Expenses	Controls over special expense and president's expense account	Implemented
			Expenses	Overpaid contractor	Implemented
			Job Skills Program	Improper travel expenses	Not Assessed
			Job Skills Program	Contract noncompliance	Not Assessed
			Job Skills Program	Expense documentation and controls	Not Assessed
			Bookstore	Sales returns and negative receipts	Not Assessed
			Bookstore	No business plan	Not Assessed
			Employment and Training Center	No dual signature on client checks	Implemented

Note: Saint Cloud Technical College was included OLA Report 04-37 but had no findings or recommendations.

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 2006 audit, the external auditor of the consolidated financial statements issued a management letter to MnSCU's Board of Trustees. The letter contained 14 comments on accounting, administrative, and operating matters. None of those findings involved the institutions examined during our review of the seven colleges.

Minnesota State Colleges and Universities (MnSCU)

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 identified significant compliance 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.

Legislative Audit Report 06-28, issued in October 2006, involved an audit of Alexandria, Anoka, and Dakota County Technical Colleges, North Hennepin Community College, Northland Community and Technical College, and South Central and Saint Paul Colleges for fiscal years 2003, 2004, and 2005. The audit scope included tuition and fee revenues, payroll, administrative expenses, and security over accounting applications for those areas. The report contained 17 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 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.

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 satisfies that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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Minnesota
STATE COLLEGES
& UNIVERSITIES

September 10, 2007

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 audit of seven colleges and the separate review of security access and professional/technical contract services at other colleges and universities and the Office of the Chancellor.

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. The audit scope was expanded this year at our request and identified opportunities for process improvements in certain administrative functions.

We have evaluated the twenty-four findings and agree that corrective actions are needed to resolve these issues. The seven colleges, one university and Office of the Chancellor have developed the action plans, as cited in this response, to implement the necessary improvements. We are particularly pleased that, with the exception of five findings, the report cites findings that are discrete matters that pose relatively low risk to these colleges. Nonetheless, we take every improvement opportunity seriously and will implement corrective actions.

On behalf of the presidents and financial management staff at each of the colleges, universities, and 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.

/s/ Laura M. King

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 the Audit of Seven Colleges and
Separate Review of Security Access and Professional/technical Contract Services

1. Most colleges and universities that we reviewed did not formalize, document or test detective controls designed to mitigate the risks resulting from staff assigned incompatible financial duties.

   Central Lakes College will work with the Office of the Chancellor staff to review security rights for CLC employees, make adjustments as appropriate, and document controls.
   Responsible: Vice President of Administrative Services and Director of Business Services
   Estimated Completion Date: October 31, 2007

   Inver Hills Community College Director of Business Services and the Accounting Coordinator are reviewing security profiles and will be developing written mitigating controls where needed and removing unnecessary security rights in other cases. These actions will be reviewed with the internal audit coordinator. In those cases where due to vacations the college may be unable to function without providing incompatible access to another employee that creates a temporary conflict, the college will grant only temporary access to the needed security module and will attach to the security request a written process describing the mitigating control(s) that will be performed during this temporary period.
   Responsible: Director of Business Services
   Estimated Completion Date: October 15, 2007

   Normandale Community College will review and eliminate unnecessary staff computer access to programs. In areas of incompatible access to the financial systems a documented mitigating control process will be designed and implemented. The Accounting Office Supervisor will review security access quarterly. The Director of Fiscal Services will periodically and independently review employees' security authorizations as an overall security safeguard. Periodic security checks will be done quarterly from hereafter as per college policy.
   Responsible: Director of Fiscal Services
   Estimated Completion Date: December 31, 2007

   Relative to the incompatible access to initiate procurements and also make vendor payments, Pine Technical College will create written guidelines to support the process of selecting one random date from each month to review all payment/ procurement transactions entered by Business Office staff on that date. These guidelines will also describe the day-to-day processes used to authorize encumbrance and/or make payments. Documentation of the reviews will be maintained for auditor review. At PTC, it is difficult to separate duties due to the small size of the business office staff. Therefore, mitigating controls are being used.
   Responsible: Business Office Manager
   Estimated Completion Date: November 30, 2007

Riverland Community College has already removed unnecessary security clearances for many employees noted with incompatible access. Riverland will be further reviewing security access and position responsibilities for the remaining employees noted with incompatible access/duties. When possible, unnecessary security access will be modified to eliminate incompatible access. Riverland will also consider restructuring responsibilities to properly segregate duties and develop written mitigating controls when it is deemed operationally impractical to separate incompatible duties.
Responsible: Vice President of Finance & Facilities
Estimated completion date: March 31, 2008

Ridgewater College will define and test detective controls designed to mitigate the risks resulting from staff whom may be assigned incompatible financial duties. Ridgewater will also implement proper controls to immediately delete former employees' access rights to accounting and purchasing security groups upon termination.
Responsible: Vice President of Finance and Operations
Estimated Completion Date: March 31, 2008

Due to a large number of vacancies at Metropolitan State University remaining staff were asked to multi-task. The office is now fully staffed, and excess accesses have been deleted. The University intends to monitor security access on a regular basis. Moving forward, access incompatibilities across the university will be reviewed on a quarterly basis. The University will also develop and implement mitigating controls for those circumstances where segregation is not possible or practical, given staffing levels.

All supervisors at Metropolitan State University will use a required check off list whenever an employee departs from the organization reminding the supervisors to individually delete ISRS, MAPS, SEMA-4, and network access. Also, Human Resources will notify IT of staff termination dates so that IT staff can monitor the deletion of security access to the various systems. The Associate Vice President for Financial Management, in consultation with Human Resources, will monitor this activity on a quarterly basis to ensure that all departed employees have been deleted from the system.
Responsible person: Associate Vice President for Financial Management.
Estimated Completion Date: Immediately.

Minneapolis Community and Technical College will delete the access to the accounting and purchasing system's for the two former employees. The MCTC information technology and human resource units will develop a process for informing the appropriate supervisor of the need to make the necessary ISRS security profile changes upon the employee's separation from employment at MCTC. Also, MCTC will review and correct on a bi-annual basis the system's security rights granted to all current employees.
Responsible person: Vice President of Finance and Operations.
Expected completion date: October 31, 2007

2. Five colleges unnecessarily retained sensitive credit card documents.

   The Office of the Chancellor will coordinate a team consisting of Business Unit representatives including Finance, Office of General Counsel, Audit and ITS as well as campus representatives, to develop guidelines and resources to comply with payment card industry standards.
   Estimated Completion Date: December 31, 2007

   Inver Hills Community College cashiers and the business office are responsible for securing business office credit card receipts in locked cabinets. The Director of Business Services is responsible for insuring the receipts are destroyed within 5 (five) months of their receipt by the document management company which shreds sensitive documents on site.
   Responsible: Accounting Coordinator and Director of Business Services
   Completed

   Normandale Community College will store all paper credit card information in locked file cabinets until the information can be shredded. There is no credit card information stored on any of the computer software programs used at the college. The college has put into practice shredding the credit card information after six months.
   Responsible: Business Office Supervisor
   Estimated Completion Date: October 31, 2007

   Riverland Community College will develop an internal procedure to identify the retention period for credit card information. Documentation beyond the retention period will be shredded to ensure confidential, secure disposal and compliance with Payment Card Industry (PCI) Data Security Standards.
   Responsible: Business Manager
   Estimated Completion Date: December 31, 2007

   Central Lakes College is now saving receipts for one semester. The College pulled the older receipts from storage and had them shredded by a secure shredding service. The College has worked closely with their bank and credit card processor to insure that equipment is in compliance and that credit card information is safeguarded. Central Lakes College is currently working with their bank to change the credit card processor and upgrade to an online system that would eliminate the need to store credit card information entirely.
   Responsible: Director of Business Services
   Estimated Completion Date: October 31, 2007

   Ridgewater College will update its current credit card security process and procedure, and comply with statutory and best practices. The College will destroy all credit card receipts in compliance with this updated procedure and in a secured manner.
   Responsible: Director of Accounting
   Estimated Completion Date: December 31, 2007

3. Three colleges had weaknesses with backdated registration changes or waivers, including one college where backdated registration changes resulted in some overpaid tuition refunds.

   As of July 1, 2007, Riverland Community College has implemented a new procedure to better address and document student requests for exceptions to college policy and procedure. Students complete a petition form which is reviewed by a cross-functional Petition Committee, marked as approved or denied, and retained as supporting documentation for the adjustment.
   Responsible: Dean of Student Affairs
   Completed

   The Normandale Community College Registration and Business Office have designed and implemented a process to complete all backdated drops to prevent overpaid tuition refunds. The overpaid tuition refunds are being pursued for repayment back to the college.
   Responsible: Business Office Supervisor, Registrar, Registration/Records Supervisor, and Accounts Receivable Manager.
   Completed

   The Inver Hills Community College Human Resources office will maintain a spreadsheet detailing the IHCC employees requesting waivers, the number of credits the employee and/or dependents are eligible for, and will record by term the number of credits granted. The Director of Business Services will once a term compare the waiver forms completed with the actual waivers granted through ISRS to verify the proper number of credits were waived and will also review compliance with employee labor contracts.
   Responsible: Director of Business Services
   Estimated Completion Date: October 31, 2007

4. Central Lakes College cashiers shared cash drawers and also did not adequately document negative receipt transactions when recording certain cash collections.

   Beginning September 17, 2007, Central Lakes College will require cashiers have independent cash sessions and separate cash drawers to allow for accountability of collections and any resulting shortages. Central Lakes College began documenting the reason for negative transactions recorded during the cash sessions and has an independent person review the propriety of those transactions. Accounting Technician documents the negative transactions and Cashier reviews the transactions.
   Responsible: Director of Business Services
   Estimated Completion Date: September 17, 2007

5. Colleges did not have effective controls over supplement pay assignments to faculty and administrators.

   The Inver Hills Community College now requires all supplemental pay assignments for faculty and administrators to be submitted on a Faculty Payment Form and signed by an Administrator, Program Director, or supervisor. The HR department is now entering faculty teaching assignments only after the Dean/Director ensures in writing that the class will be taught for that term by that faculty member. The college's HR, IT, and academic administration divisions will work on developing a system to compare faculty SCUPPS personnel assignments to the final courses in the registration system. In the case of overpayments, the employee will be notified of the overpayment and a repayment plan scheduled.
   Responsible: Director of Business Services and Director of Human Resources
   Estimated Completion Date: March 31, 2008

   Normandale Community College has revised the procedures to identify assignment differences from the master schedule. The college is pursing the recovery of the overpaid salary to the employee.
   Responsible Staff: Chief Human Resource Officer
   Estimated Completion Date: September 30, 2007

   Pine Technical College will monitor to verify that the compensation called for by the MSCF contract for faculty members' supplemental assignments matches the SCUPPS personnel assignments entered. Pine Technical College has paid the faculty member who was underpaid for the overload course. The College reviewed the overload or supplemental assignments for other faculty to ensure that they were properly paid.
   Responsible: Human Resources Director; Dean of Academic Affairs
   Estimated Completion Date: Ongoing Process

   Ridgewater College will develop a control process to assure that staff are compensated only for work performed or courses held.
   Responsible: Chief Human Resources Officer
   Estimated Completion Date: December 31, 2007

   The Office of the Chancellor is drafting a Business Case proposal to request approval for the funds and IT staff time necessary to make this modification to the SCUPPS system. This proposal is anticipated to be sent to the approval group this fall.
   Responsible: Associate Vice Chancellor of Personnel
   Estimated Completion Date: December 31, 2007

6. Two colleges did not accurately calculate severance payments for several employees.

   Inver Hills Community College has corrected 3 of the underpayments and expects to complete processing of the other underpayment by October 15, 2007. The College has recovered 1 of the overpayments, written off an overpayment of $40.40 and the Director of Business Services will be taking action to collect the other remaining overpayment by September 21, 2007.
   Responsible: Director of Business Services and Human Resources Specialist
   Estimated Completion Date: October 15, 2007

   Ridgewater College has already implemented a special payment request form that is reviewed and approved by two employees to ensure accurate severance calculations. The College will verify this process is in place and effectively working.
   Responsible: Chief Human Resources Officer
   Estimated Completion Date: October 31, 2007

7. Colleges did not accurately account for some faculty and administrator leave and did not always eliminate leave balances for terminated employees.

   St. Cloud Technical College has implemented a procedure to monitor faculty leave accrual and use each pay period. Faculty leave use is posted on a GroupWise calendar by the deans' assistants. Staff in the Human Resources department review the calendar each pay period and deduct leave accordingly. Administrator leave is monitored on a biweekly basis. The leave is deducted and accruals are run and monitored each pay period. St. Cloud Technical College uses an ending employment checklist which includes processing leave balance payouts and liquidations according to contract or plan language.
   Responsible: Director of Human Resources
   Completed

   Normandale Community College has designed and implemented a process to review and crosscheck employee records with accumulated HR records.
   Responsible: Chief Human Resource Officer
   Estimated Completion Date: October 31, 2007.

   Riverland Community College will correct leave balance errors, including eliminating terminated employees' liquidated and forfeited leave balances. The Human Resources department will implement a leave tracking process separate from the SCUPPS system to facilitate accurate calculations and act as a tool for review, verification and adjustment of SCUPPS balances each year.
   Responsible: Vice President of Employee & Public Relations
   Estimated Completion Date: December 31, 2007

The payroll clerk at Inver Hills Community College will review and correct any posting errors in leave earned for adjunct, part-time, and summer school faculty. The College will utilize ISRS applicable reports to develop a method of reviewing the accuracy of leave recorded in the personnel system. A part time business assistant will be responsible for this review. A payroll clerk will be responsible for reducing faculty and administrator balances in a timely and accurate manner for leave taken. Prior to payment of any severance payments, the payroll clerk will review the employee's leave record to insure the record is accurate.
Responsible: Payroll Clerk and Business Assistant
Estimated Completion Date: March 31, 2008

Ridgewater College will develop and implement a process to accurately account for internal leave recordkeeping on a timely basis. In addition, Ridgewater will review procedures involving floating holidays to verify that they are accounted for accurately.
Responsible: Chief Human Resources Officer
Estimated Completion Date: January 31, 2008

The Office of the Chancellor's long-term goal is to include an automated process in the next round of enhancements to the SCUPPS system. This may be a 1 - 2 year process before it is accomplished. In the meantime, the Office of the Chancellor will discuss with the college and university Chief Human Resource Officers the need to manually reduce liquidated and forfeited leave balances.
Responsible: System Director of Personnel
Estimated Completion Date: Spring 2008

8. Pine Technical College did not independently monitor payroll transactions entered into the state's payroll system for classified hourly staff.

   Pine Technical College will have the Accounting Officer review the accuracy of the payroll register.
   Responsible: Business Office Manager
   Estimated Completion Date: Ongoing Process

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

   Central Lakes College will conduct additional training with all CLC employees regarding appropriate purchasing and accounts payable policy. Beginning in July, 2006 Central Lakes College began sending out periodic emails on purchasing policy and process. During the academic year, the Business Office staff conducted monthly mini workshops for faculty and staff to reinforce the policy and processes. Additionally, in August 2007, the Vice President of Administrative Services sent an email to all faculty and staff outlining the purchasing guidelines. She also presented this information at the faculty duty day and new employee orientation in August. The Business Office is continuing the

monthly mini workshops on purchasing and is scheduling training with each of the academic divisions to further reinforce the guidelines.
Responsible Person: Vice President of Administrative Services and Director of Business Services
Estimated Completion Date: October 1, 2007

The Inver Hills Community College Director of Business Services has reviewed with the Business Office staff the proper coding of occurrence dates so that transactions are entered in the proper fiscal year. This review will be repeated near the end of each fiscal year.
Responsible: Director of Business Services
Completed

Normandale Community College has collected the amount overpaid as a result of receiving duplicate invoices. In the future, the college will pay the credit card statements on time and dispute any charges to get credited against future statements to avoid late fees. The college staff has been informed of the importance of the proper year end occurrence dates and recording the proper transaction date in the correct fiscal year. Some invoices and procurements could not be found at the time of the audit. The college spent several hours trying to find the documents and management decided not to extend the additional resources to locate the documents.
Responsible Staff: Director of Fiscal Services
Completed

Pine Technical College, as part of the annual Faculty/Staff in-service activities, emphasizes to faculty and staff the need to identify the full cost of potential obligations and the requirement to encumber sufficient funds to pay before incurring the obligation. The College will continue to work with departments identified as not providing Business Office staff with timely and necessary documents to enable effective control and compliance with Board procedures. The College's Business Office Manager now checks the coding on requisitions for purchase. The College will review the Business Office processing procedures to identify changes needed.
Responsible: Business Office Manager
Estimated Completion Dates: November 15, 2007

Ridgewater College will review and update their internal controls to ensure compliance with MnSCU and college purchasing policies and to accurately report financial activities in the accounting system.
Responsible: Director of Accounting
Estimated Completion Date: January 31, 2008

10. Three colleges did not effectively control equipment additions and disposals.

Normandale Community College has designed a process to update and monitor the movement of asset inventory in the college.
Responsible Staff: Director of Fiscal Services
Completed

Ridgewater College will review procedures and make any necessary improvements to ensure that all equipment purchases are updated in the asset inventory records. In addition, Ridgewater will review and update procedures for reporting equipment disposals to ensure improved accountability and timeliness.
Responsible: Vice President of Finance and Operations
Estimated Completion Date: December 31, 2007

Riverland Community College has an internal form to report asset disposals and changes in locations to the Business Office. The Business Office will communicate the necessity to report asset changes via e-mail to the entire college community, supervisory training, and working individually with administrators that have large volumes of equipment within their areas.
Responsible: Vice President of Finance & Facilities
Estimated Completion Date: March 31, 2008

11. Three colleges inappropriately used vendor-issued credit cards.

Pine Technical College has destroyed vendor-issued credit cards that have never been used. Also, the College will resolve any outstanding balances to its active vendor-issued credit cards, transition to exclusive use of the system's USBank purchasing card program, and eliminate future use of any vendor-issued credit cards.
Responsible: Business Office Manager
Estimated Completion Date: March 31, 2008

Riverland Community College will resolve any outstanding balance to its vendor-issued credit card, transition to exclusive use of the system's USBank purchasing card program, and eliminate future use of any vendor-issued credit cards.
Responsible: Vice President of Finance and Facilities and Business Manager
Estimated Completion Date: October 31, 2007

Ridgewater College will resolve all outstanding balances to its vendor-issued credit cards, investigate and analyze other purchasing options, e.g. the system's USBank purchasing card program, and eliminate future use of any vendor-issued credit cards.
Responsible: Director of Finance and Facilities
Estimated Completion Date: January 31, 2008

The Office of the Chancellor will revise system procedure 7.3.3, Credit Cards, clarifying the use of individual and financial-institution credit cards and prohibiting the use of vendor-issued credit cards.
Responsible: Vice Chancellor-CFO and Director of Financial Planning
Estimated Completion Date: December 31, 2007

12. Two colleges did not always obtain receipts from employees making credit card purchases.

    Normandale Community College will require original receipts for credit card purchases. In the event of a lost receipt, the college employee will process an affidavit to support the purchase.
    Responsible Staff: Director of Fiscal Services
    Implemented

    Ridgewater College has updated the internal procedures to verify that original receipts are required to support credit card purchases. The College will verify that these procedures are effective.
    Responsible: Vice President of Finance and Operations
    Estimated Completion Date: January 31, 2008

13. MnSCU's accounting system does not provide the ability to effectively monitor compliance with statutory requirements, board contracting policies, and contract terms.

    The Office of the Chancellor will explore with the Department of Finance the feasibility of using existing or future state systems or modules to meet system needs.
    Responsible: Vice Chancellor-CFO and Director of Financial Planning
    Estimated Completion Date: March 31, 2008

14. For certain contracts, the Office of the Chancellor did not comply with statutory requirements and board policies that require funds be encumbered prior to incurring obligations.

    The Office of the Chancellor will distribute a formal memo via e-mail to all Office of the Chancellor staff, college/university chief financial officers and college/university purchasing directors reciting and emphasizing compliance with: 1) the statutory requirements identified in Minnesota Statute §16A.15; 2) system procedure 5.14.2; and 3) a provision in clause #1 of MnSCU's standard contract template.
    Responsible: Vice Chancellor-CFO and Director of Financial Planning
    Estimated Completion Date: September 21, 2007

15. The Office of the Chancellor and three colleges did not enter into formal contracts, execute contract amendments, or had other compliance exceptions for some work done by professional/technical services contractors.

The Office of the Chancellor will distribute a formal memo via e-mail to all Office of the Chancellor staff emphasizing: 1) the requirement that any modifications to an existing contract, including additional work to be performed, requires execution of an amendment and that the use of purchase orders in lieu of executed amendments is unacceptable; and 2) compliance with system procedure 5.14.2, part 2 requiring pre-approval of professional/technical services contracts, including amendments, whose value exceed \$50,000.
Responsible: Vice Chancellor-CFO and Director of Financial Planning
Estimated Completion Date: September 30, 2007

Inver Hills Community College will implement a new procedure requiring the purchasing officer and the accounts payable clerk to monitor and review contract terms to assure compliance with the contract dates, duties and financial terms. The purchasing officer will also review proposed contract values, including increases resulting from amendments, prior to encumbrance to assure to College is in compliance with system procedure 5.14.2 requiring the Vice Chancellor-CFO's approval for total contractual obligations exceeding \$50,000.
Responsible: Director of Business Services
Estimated Completion Date: September 30, 2007

Central Lakes College will review with its staff the services requiring contracts in lieu of purchase orders, including professional/technical services contracts that are intellectual in nature.
Responsible: Vice President of Administrative Services
Estimated Completion Date: September 30, 2007

Normandale Community College will review with its staff system procedure 5.14.2, part 10 outlining restrictions to professional/technical services. The College has also discussed with the Office of the Chancellor the addition of the restrictive language in the system's standard professional/technical services contract template.
Responsible: Vice President of Finance and Operations
Estimated Completion Date: September 30, 2007

16. Metropolitan State University did not comply with MnSCU procedures governing professional/technical services contracts.

As part of its focus on continuous improvement, Metropolitan State University will sponsor a comprehensive contract and procurement training class. The class, to be presented by the Office of the Chancellor's Financial Administration and General Counsel Divisions, will cover competitive bidding requirements, MnSCU Board policy and system procedures, and best purchasing and contract practices. Attendance will be

required for all staff who procure goods and services and who administer and process the transactions.
Responsible: Vice President of Administration and Finance
Estimated Completion Date: March 31, 2008

17. The Office of the Chancellor did not properly administer contracts with a vendor.

    The Office of the Chancellor will distribute a formal memo via e-mail to all Office of the Chancellor staff emphasizing that: 1) the probable cost and duration of services should be identified prior to contracting in order to ascertain whether competitive procurement is required; 2) sequential contracts with the same contractor for identical services and scope of duties is unacceptable and that the original contract should be amended extending the term when required; and 3) pre-approval by the Vice Chancellor-CFO is required by system procedure 5.14.2 if an amendment will increase the contract's value in excess of $50,000.
    Responsible: Vice Chancellor-CFO and Director of Financial Planning
    Estimated Completion Date: September 30, 2007

18. MnSCU board procedures do not include certain best practices when contracting for professional/technical services.

    The Office of the Chancellor will review Board policy 5.14, system procedure 5.14.2 and the system's standard contract templates in an effort to implement current best contract practices throughout the system.
    Responsible: Vice Chancellor-CFO and Director of Financial Planning
    Estimated Completion Date: March 30, 2008

19. Three colleges did not comply with prompt deposit requirements.

    The Inver Hills Community College Business Office currently collects on a daily basis all receipts generated at remote sites (Day Care Center and Recreational Activities) and promptly deposits all receipts over $250 on a daily basis in compliance with state statute.
    Responsible: Director of Business Services
    Completed

    Riverland Community College deposit procedures for Cosmetology receipts were modified to meet the $250 statutory daily deposit requirement immediately upon recognition of the issue during audit fieldwork.
    Responsible: Business Manager
    Completed

    Ridgewater College will analyze and update procedures as necessary in order to promptly deposit all receipts that accumulate over $250 on a daily basis.

Responsible: Director of Accounting
Estimated Completion Date: December 31, 2007

20. Many colleges had cashiers in auxiliary collection areas that shared cash drawers.

Central Lakes College has evaluated the cost-benefit of sharing cash registers and cash drawers. Because of limited staff in some areas and the need for student employees in other areas, it is not feasible, nor efficient to switch cash drawers every time there is a cashier change. For the Staples campus Auxiliary Operations, someone from outside of the department counts the cash drawers and prepares the deposits each day. For the Staples Bookstore, one of the accounts payable clerks counts the cash drawers and prepares the daily deposits. For the Brainerd Bookstore, a double count of the cash drawers is performed. The Director of Business Services or the Director of Auxiliary Services does a third review of the deposit before it goes to the bank. These controls have been in place for several years.

Beginning September 1, 2007, during high volume periods (beginning of the semester) the Director of Auxiliary Services will periodically count cash drawers during the day and remove excess cash from the drawers, locking it in the safe, to limit the risk of loss. Additionally, because there are multiple cash registers used during these periods, each drawer will be assigned one cashier. During lower volume periods, when only one cash register is used, cashiers will share a single cash drawer. Central Lakes College will continue to perform double counts of the drawer and document any discrepancies. Independent reviews of daily overages and shortages are conducted monthly by the Director of Business Services.
Responsible: Director of Business Services and Director of Auxiliary Services
Completed

Ridgewater College will evaluate the cost-benefit of sharing cash registers and cash drawers. If separate cash accountability is not cost effective, Ridgewater will develop appropriate detective controls. This analysis will also involve investigating the option of having separate cash drawers during peak periods only.
Responsible: Director of Facilities and Auxiliary Services
Estimated Completion Date: January 31, 2008

Normandale Community College understands that MnSCU's Department of Internal Auditing will be asked to do an assessment sharing cash registers and cash drawers.
Responsible Staff: Director of Fiscal Services
Estimated Completion Date: As to be determined.

Riverland Community College will assess the cost-benefit of having separate cash sessions and drawers for Bookstore operations. If separation is not a viable option, written mitigating controls will be developed to minimize the risk of improprieties.
Responsible: Vice President of Finance & Facilities
Estimated Completion Date: April 30, 2008

St. Cloud Technical College has evaluated the cost-benefit of sharing cash registers and cash drawers. It was determined that the cost of separating cash accountability would outweigh the benefits to do so. To provide detective controls, the Accounting Supervisor has monitored overages and shortages on a daily basis. Based on factors such as activity, the number of occurrences, and materiality, the cause for differences has been investigated and training or other follow up initiated. To tighten controls, a spreadsheet is being developed to document daily overages and shortages. That document will be monitored on a daily basis and, as problem areas are identified, appropriate action will be initiated.
Responsible: Vice President of Administration
Estimated Completion Date: September, 2007

21. One college did not have a current contract with its child care provider.

    St. Cloud Technical College signed a lease agreement with the childcare provider through June 30, 2007. A new agreement for fiscal year 2008 is currently under revision as a License Agreement and will be completed in September, 2007.
    Responsible: Vice President of Administration
    Estimated Completion Date: September, 2007

22. Three colleges did not verify the integrity of financial information supporting commissions earned from outsourced operations.

    The Inver Hills Community College accounting coordinator will verify the sales reported on the vendor's monthly sales report at least once a term.
    Responsible: Accounting Coordinator
    Estimated Completion Date: December 15, 2007

    Normandale Community College has implemented a rental agreement verses a commission based income contract for the child care contract. The new contract will not need to analyze sales information. The college will track food service daily sales to calculate commission income due the college.
    Responsible: Director of Fiscal Services
    Estimated Completion Date: September 30, 2007

    Riverland Community College will review and discuss financial operations information during periodic meetings with the food service vendor representative. The Business Office will conduct analytical reviews of commissions earned from food service vendors on an annual basis to test for reasonableness. The Business Office will review information on vending companies' monthly reports and verify appropriate commission rates were paid and calculated correctly.
    Responsible: Business Manager
    Estimated completion date: December 31, 2007

23. Pine Technical College's Employment Training Center provided services that may not comply with MnSCU's statutory mission.

    The College will work with the staff of the Office of the Chancellor to conduct a thorough review and discussion of the Employment and Training Center, its services and the relationship of those to the missions of MnSCU and the college. Revisions to board policy and state statutes will be sought as necessary.
    Responsible Staff: Robert L. Musgrove, PhD, President.
    Estimated Completion Date: December 31, 2007

24. Pine Technical College did not fully recover indirect costs associated with its Employment Training Center.

    PTC will work with staff of the Office of the Chancellor to examine its indirect rate procedure and calculation to ensure that it is documented appropriately and in compliance with MnSCU policy and procedure and that PTC collects from the ETC the full amount of indirect appropriate under policy.
    Responsible: Robert L. Musgrove, PhD, President.
    Estimated Completion Date: December 31, 2007