OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota State Colleges and Universities

Internal Control and Compliance Audit

Fiscal Years 2005, 2006, and 2007

October 8, 2008 **Report 08-23**

FINANCIAL AUDIT DIVISION
Centennial Building – Suite 140
658 Cedar Street – Saint Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web site: http://www.auditor.leg.state.mn.us
Through Minnesota Relay: 1-800-627-3529 or 7-1-1

October 6, 2008

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. James McCormick, Chancellor
Minnesota State Colleges and Universities

Board of Trustees
Minnesota State Colleges and Universities

This report presents the results of our internal control and compliance audit of nine colleges of the Minnesota State Colleges and Universities (MnSCU) system and the Office of the Chancellor. Each of the audits covered fiscal years 2005, 2006, and 2007.

In our report, we identify some issues as *systemic findings*. We define a systemic finding as an internal control or compliance weakness noted at a majority of the audited colleges that can most effectively be resolved by directive, guidance, or oversight of the Office of the Chancellor. Our report includes the following systemic findings:

- Lack of detective controls to mitigate the risks of incompatible computer system access (Finding 1).
- Lack of current, written contracts for banking relationships (Finding 4).
- Inaccurate accounting for leave benefits (Finding 13).

Our fieldwork ended in July 2008, and we discussed the results of the audit with MnSCU management on September 25, 2008. The audit was conducted by Brad White, CPA, CISA, CFE and David Poliseno, CPA, CISA, CFE (Audit Managers), Scott Tjomsland, CPA, CISA and Joan Haskin, CPA, CISA (Auditors-in-Charge), and assisted by auditors Mark Allan, Tracy Gebhard, Tracia Gimbut, Bridgette Leonard, Timothy Rekow, CPA, Kathy Rootham, Paul Thompson, David Westlund, and Emily Wiant.

We received the full cooperation of the MnSCU Office of the Chancellor and college staff while performing this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusions

The Minnesota State Colleges and Universities (MnSCU) Office of the Chancellor and the nine colleges included in our scope generally had adequate internal controls over major financial areas, such as resident tuition, employee salaries, and operating expenses. These controls generally ensured they safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, with certain exceptions, the Office of the Chancellor and the individual colleges complied with financial-related MnSCU policies and legal requirements.

However, the office and the colleges had a variety of control weaknesses and noncompliance over complex areas that have a high-risk for errors, such as tuition reciprocity, employee leave, and credit cards. In addition, the MnSCU system had not resolved some recurring prior audit findings.

Key Findings

- The Office of the Chancellor and the colleges we reviewed provided some employees with access to perform certain incompatible financial functions without a written plan to mitigate risk. (Finding 1, page 9)
- One college did not effectively manage its bank balance causing overdraft fees, another college had inadequate collateral to protect bank balances, and eight colleges did not have bank contracts. (Findings 2-4, pages 11 and 12)
- Colleges unnecessarily retained student credit card information, and some cashiers shared cash drawers and did not document voids and refunds. (Findings 5-7, pages 12-14)
- Certain colleges did not retain evidence necessary to justify certain financial transactions. (Finding 8, page 15)
- The Office of the Chancellor and colleges had errors accounting for leave benefits, which could cause possible future severance payment errors. (Finding 13, page 19)
- The Office of the Chancellor and the colleges reviewed had control weaknesses and noncompliance with requirements for vendor procurements and payments, equipment, credit cards, and employee reimbursements. (Findings 16-20, pages 22-28)

Audit Objectives and Scope

We examined internal controls and compliance at the Office of the Chancellor and nine selected MnSCU colleges colleges (Anoka-Ramsey, Hibbing, Itasca, Rainy River, and Vermilion Community Colleges; Mesabi Range and Minnesota West Community & Technical Colleges; Fond du Lac Tribal & Community College; and Minnesota State College-Southeast Technical) for fiscal years 2005, 2006, and 2007 over:

- Security Over Financial Applications
- Tuition and Fee Revenues
- Banking and Local Revenues
- Payroll Expenses
- Administrative Operating Expenses
- Capital Projects

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities (MnSCU) system contracts[1] with the Office of the Legislative Auditor to expand internal control and compliance audit coverage of the Office of the Chancellor and selected MnSCU colleges. This year, in addition to the Office of the Chancellor, we audited selected financial activities of the following nine colleges:

- Anoka-Ramsey Community College (Anoka-Ramsey)
- Fond du Lac Tribal & Community College (Fond du Lac)
- Minnesota West Community & Technical College (MnWest)
- Minnesota State College-Southeast Technical (SE Technical)
- Hibbing Community College (Hibbing)
- Itasca Community College (Itasca)
- Mesabi Range Community & Technical College (Mesabi Range)
- Rainy River Community College (Rainy River)
- Vermilion Community College (Vermilion)

Agency 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* 2007, Chapter 136F, assigns to the MnSCU Board of Trustees the powers necessary to govern the state colleges and universities. The board appointed James H. McCormick as MnSCU Chancellor 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 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 and universities for the cost of some centralized services.

The Office of the Chancellor requires all colleges to use MnSCU's accounting system, a part of its Integrated Statewide Record System, to process and record financial activities. The MnSCU accounting system interfaces with the state's accounting system to generate payments from the state treasury. The Office of the Chancellor also requires all colleges to use the MnSCU accounting system to account for money maintained outside of the state treasury. Colleges hold money

[1] The contract is authorized by *Minnesota Statutes* 2007, 3.9741, subd. 2.

outside the state treasury to allow for greater flexibility in managing high volume transactions for financial aid, student activities, and auxiliary operations, such as bookstores and food services. The colleges administer these funds in local bank accounts.

The colleges finance their operations from state appropriations, allocated by the Office of the Chancellor, and tuition. The colleges retain their tuition and other receipts to arrive at their total authorized spending level. The authorized spending level is the basis for establishing spending budgets for the various administrative areas and academic departments. MnSCU's Comprehensive Annual Financial Report provides additional information on its financial operations.

Table 1 recaps demographic and financial information for Office of the Chancellor and the colleges in our audit scope.

Table 1
Selected Information for Fiscal Year 2007

Entity / College	Student FYE[1]	Faculty FTE[1]	Staff/ Admin FTE[1]	Total Operating Revenue[2] (in 000's)	Total Operating Expenses (in 000's)
Office of the Chancellor[3]	n/a	n/a	343	$27,587	$24,761
Anoka-Ramsey	4,876	213	161	$37,309	$37,255
Fond du Lac	1,171	54	45	$ 9,710	$10,288
Hibbing	1,145	82	73	$16,028	$16,231
Itasca	1,045	60	52	$11,467	$13,622
Mesabi Range	1,105	68	56	$12,177	$12,836
MN West	2,048	135	115	$25,186	$26,146
Rainy River	303	24	23	$ 4,420	$ 4,652
SE Technical	1,514	77	71	$16,781	$17,961
Vermilion	646	36	34	$ 8,124	$ 8,366

[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, federal and state grants, other income, and state appropriations allocated to each college and the Office of the Chancellor.
[3] The Office of the Chancellor's total operating revenue and expenses are net of charges it reallocated back to the colleges and universities for costs such as information technology and administrative and facilities management.

Source: Financial information obtained from the MnSCU Supplement to the Annual Financial Report for the year ended June 30, 2007, Statement of Revenues, Expenses, and Changes in Net Assets schedules (unaudited). Other data obtained from MnSCU Accounting and MnSCU's Budget Division and Human Resources Division web sites.

Objectives, Scope, and Methodology

Our audit included selected financial activities of the MnSCU Office of the Chancellor and nine colleges. The audited activities included security over access to computerized accounting applications, tuition and fee revenues, banking, payroll, operating and administrative expenses (contract services, employee expense reimbursements, credit card use, supplies, and equipment), capital project spending, and local revenues covering fiscal years 2005, 2006, and 2007.

Our audit focused on the following objectives:

- Were internal controls at the MnSCU Office of the Chancellor and colleges in our scope adequate to ensure that they safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did the MnSCU Office of the Chancellor and colleges in our scope comply with significant finance-related legal requirements over financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?

- Did the MnSCU Office of the Chancellor and colleges resolve prior audit findings specific to its office and this group of colleges? Did the Office of the Chancellor implement recommendations from our prior audits of other colleges to resolve systemic findings?[2,3]

To answer these questions, we interviewed Office of the Chancellor and college staff to gain an understanding of the controls related to MnSCU´s financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the Office of the Chancellor and colleges' controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

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[2] Office of the Legislative Auditor, Financial Audit Division Reports 04-37, 05-49, 06-28 and 07-25.

[3] A systemic finding is an internal control or compliance weakness noted at a majority of the audited colleges that can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[4] We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Employee Relations and Administration and MnSCU's internal policies and procedures as evaluation criteria over compliance.

We emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges.

Conclusions

The Minnesota State Colleges and Universities (MnSCU) Office of the Chancellor and the nine colleges included in our scope generally had adequate internal controls over major financial areas such as resident tuition, employee salaries, and operating expenses. These controls generally ensured they safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. However, the office and the colleges had a variety of control weaknesses and noncompliance over complex areas that have a high-risk for errors, such as tuition reciprocity, employee leave, and credit cards.

For the items tested, the Office of the Chancellor and colleges generally complied with MnSCU policies and finance-related legal requirements. However, the colleges did not comply with some legal provisions related to tuition, leave benefits, procurement, credit cards, travel, and prompt deposit of auxiliary receipts.

[4] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 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 inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

The Office of the Chancellor and the colleges did resolve most prior audit findings specific to the office and this group of colleges. However, the Office of the Chancellor did not implement recommendations to resolve some systemic findings.

The following *Findings and Recommendations* section of the report identifies the internal control weaknesses or noncompliance over several aspects of financial operations for the Office of the Chancellor and the colleges we reviewed.

Findings and Recommendations

Finding 1

Systemic Finding: The Office of the Chancellor and the colleges did not design, document, or monitor detective controls to mitigate the risk created by granting incompatible employee access to certain computer system functions. Some employees had unneeded computer system access.

The Office of the Chancellor and the colleges allowed employees to have incompatible access to accounting systems without defining, documenting, or monitoring the effectiveness of mitigating controls.

The Office of the Chancellor identified incompatible security groups that colleges should avoid, but it did not clearly define the risks created by those incompatibilities or recommend mitigating controls that could reduce those risks. Because all colleges use the same systems to process the same types of financial activity, they face the same basic risks. It is likely that similarly designed detective controls could mitigate those risks. The Office of the Chancellor's expertise with the systems could be instrumental in helping colleges assess the risks and design effective detective controls.

The following table recaps the number of employees with incompatible access and those with unnecessary access, at the Office of the Chancellor and the audited colleges:

Table 2
Number of Employees with
Incompatible or Unnecessary Access

MnSCU Entity	Accounts Receivable[1]	Accounts Payable[2]	Unnecessary Access[3]
Office of the Chancellor	0	1	0
Anoka-Ramsey	4	5	0
Fond du Lac	3	4	2
SE Technical	1	5	0
MN West	9	5	0
Hibbing	4	4	2
Itasca	4	6	2
Mesabi Range	4	5	1
Rainy River	1	2	2
Vermilion	3	3	2

[1] Incompatible access to accounts receivable functions includes cashiers who handle cash and can also adjust, waive, or defer student receivable balances, in addition to other incompatibility scenarios determined by the Office of the Chancellor.

[2] Incompatible access to accounts payable functions includes employees who initiate purchases and can also pay vendors, in addition to other incompatibility scenarios determined by the Office of the Chancellor.

[3] Unnecessary access included employees that the college agreed did not need update access based on their job responsibilities. The unnecessary access counts for Hibbing, Itasca, Mesabi Range, Rainy River, and Vermilion involve the same individuals.

Source: MnSCU Integrated Statewide Record System's security data.

Separation of incompatible duties is a fundamental internal control. It typically involves the separation among different people of authorization, custody, record keeping, and reconciliation duties. Separation of incompatible duties is a *preventive control* designed to prevent the occurrence of errors or fraud. When separation of incompatible duties cannot be achieved, it increases the risk that errors or fraud could occur. To mitigate that risk, the entity needs *detective controls* designed to detect whether errors or fraud have occurred. The entity also needs to monitor whether employees perform the controls as designed and whether the controls are effective. In an environment where an entity does not separate incompatible duties and does not implement effective detective controls, the risk of error or fraud occurring without detection is high.

When the Office of the Chancellor and the colleges allowed their employees to have incompatible access, they should have designed and documented detective controls to mitigate the risks. A well-designed plan should include written procedures that identify: a) the steps involved in performing the controls, b) the frequency of those steps, c) the individual assigned to perform them, and d) the documentation needed to monitor the performance of the control.

Few colleges had documented their detective controls or monitored the performance or effectiveness of the controls. Some colleges took the following initial steps to address some mitigating controls:

- Minnesota State College-Southeast Technical did develop some written detective control procedures. However, those procedures did not address all of the incompatible accesses that the college provided to its employees.

- Prior audit findings at Northeast Higher Education District colleges identified that cashiers had incompatible access to waive tuition and fee charges. Those colleges now appropriately monitored waivers but have not documented those control procedures. In addition, the colleges had employees with other unmitigated incompatible access for which the college had not designed detective controls.

Recommendations

- *The Office of the Chancellor and applicable colleges should eliminate employee access to incompatible accounting system functions, or establish formal plans for detective controls to mitigate risks from providing incompatible access. Colleges should delete employees' access to functions determined to be unnecessary based on job responsibilities.*

- *The Office of the Chancellor should assist colleges to identify risks and develop effective detective control strategies that address the access incompatibilities.*

Finding 2

Rainy River Community College did not monitor its bank account balance or reconciliations and incurred bank overdraft fees totaling nearly $6,000.

From November 2005 to December 2007, Rainy River had a negative cash balance in its local bank account on 31 days. Because of these negative balances, the college incurred overdrafts fees totaling $5,872. The college also did not monitor the reconciliation of the local bank account to the MnSCU accounting records. The college contracted with the Office of the Chancellor to perform the reconciliation, but as of May 2008, the most recent reconciliation was for September 2007. That reconciliation included several unresolved reconciling items – two items had been unresolved since December 2006.

Negative cash balances, overdraft charges, unresolved reconciling items, and a lack of timely reconciliations are unacceptable financial practices. These conditions set the stage for inaccurate recording of financial transactions and provide an opportunity for fraud.

Recommendation

- *Rainy River Community College should improve the management of its local bank account balance to prevent overdraft fees. The college should reconcile its local bank account and resolve reconciling items in a timely manner.*

Finding 3

Minnesota West Community & Technical College did not maintain sufficient collateral for its local bank accounts.

MnWest did not always have sufficient collateral to protect its local bank account balances. The college had insufficient collateral for the local bank accounts at four of its campuses for seven of ten months tested, with under-collateralized amounts ranging from $6,000 to $1.1 million.

Minnesota Statutes and MnSCU procedures[5] require colleges to obtain collateral for deposit balances over the federal deposit insurance coverage limit of $100,000. The fair value of the collateral must be at least ten percent greater than the amount on deposit. Without sufficient collateral, the college did not adequately secure its bank balances and inappropriately risked the loss of funds should the bank fail.

[5] *Minnesota Statutes* 2007, 118A.03 and MnSCU Procedure 7.5.1, part 5.

Recommendation

- *Minnesota West Community & Technical College should work with its local banks to obtain sufficient collateral for its local bank accounts, and it should establish procedures to ensure that its bank balances are sufficiently collateralized in accordance with MnSCU policy and state statute.*

Finding 4

Systemic Finding: Eight of nine colleges did not have contracts for banking services and had not rebid banking service relationships that exceeded five years.

Eight of the nine colleges (all except Anoka-Ramsey) used the services of a local bank without formalizing the terms of the relationship in a written contract. Many of these banking relationships were longstanding and ongoing – no colleges had changed banks in the past five years, and many had used the same bank since at least 1995. None of the colleges had immediate plans to rebid and formalize contracts for banking services.

In August 2006, MnSCU updated its banking and investment procedure.[6] The updated procedure states that colleges should rebid their local banking institutions at least every five years but does not expressly require a written contract. The Office of the Chancellor could further assist the colleges by developing a contract template to identify important aspects of the banking relationship.

Recommendations

- *The eight colleges should formalize their banking relationships with written contracts.*

- *The Office of the Chancellor should revise its procedure to require written contracts for banking services.*

Finding 5

All nine colleges inappropriately retained sensitive student credit card information in their tuition or auxiliary revenue's financial records.

As found in the 2007 audits of different colleges, colleges inappropriately retained sensitive student credit card information in college financial records. Although colleges stored these records in secured locations, retaining that information creates an unnecessary exposure. Payment card industry standards[7] require destruction of information revealing cardholder data when it is no longer needed

[6] MnSCU Procedure 7.5.1, Part 6.
[7] Payment Card Industry Data Security Standard, Version 1.1, issued in September 2006 by the PCI Security Standards Council.

for business or legal reasons. If a fraud or identity theft occurred using data a college had not appropriately secured or destroyed, the cost to the college and the MnSCU system, both in terms of money and reputation, could be substantial.

Each college, except for Anoka-Ramsey Community College, retained documentation containing full credit card information (including credit card numbers and expiration dates) on paper documents that supported over-the-counter tuition collections. For all colleges, this sensitive information dated back several years. Furthermore, each college, except for Rainy River Community College, also held full credit card information in bookstores, food service, cosmetology, and other college auxiliary operations. These remote locations posed a greater risk to colleges due to greater public access.

At the time of our audit, some colleges had improved practices. For example, Anoka-Ramsey Community College shredded credit card documentation for tuition receipts after about six months or after the semester ended, and Rainy River Community College's bookstore used technology that masked credit card numbers in its receipt documentation.

In December 2006, the Office of the Chancellor distributed the payment card industry standards to the colleges. MnSCU recently began a system-wide effort to assess compliance with industry credit card security standards at its colleges and universities.

Recommendation

- *Colleges should destroy old credit card data retained in deposit records.*

Finding 6

Two colleges had tuition cashiers who shared accounting sessions and cash drawers, and eight colleges had cashiers in bookstore, food service, or other receipt areas that shared cash drawers.

Tuition cashiers at two colleges (Fond du Lac and Hibbing) allowed other employees to share the same tuition cash drawers and accounting system cash sessions. Although the primary cashier at each college collected and recorded most receipts, they did not log off the receipt system or change cash drawers when allowing a backup cashier to fill in for them.

Requiring cashiers to log on and off their cash sessions and maintain separate cash drawers are fundamental internal controls to safeguard receipts. These controls allow management to hold cashiers accountable for transactions they record and for cash shortages in their cash drawers. These controls also protect cashiers from false accusations if cash shortages occur. The college will have difficulty investigating missing cash if it cannot determine who recorded transactions or handled the cash. These weaknesses create an environment that provides an opportunity for fraud and are unacceptable financial practices for material receipt processes, such as tuition.

In addition, eight colleges (Anoka-Ramsey, Hibbing, Itasca, Mesabi Range, MnWest, Rainy River, SE Technical and Vermilion) had bookstore cashiers who shared their cash registers and cash drawers. Additionally, Hibbing, Itasca, and Vermilion had food service cashiers and MnWest had cashiers in its cosmetology retail area that shared cash registers and cash drawers. For these less material areas with retail revenue, colleges should formally assess whether risk of theft warrants the use of secure cash registers and separate cash drawers.

Recommendations

- *Fond du Lac, and Hibbing should prohibit tuition cashiers from sharing cash drawers and cash sessions.*

- *The colleges should assess the cost-benefit of secure cash registers and separate cash drawers for bookstore, food service, and retail program operations. A college that determines that these controls are not cost effective needs to document its assessment and develop, document, and monitor effective detective controls.*

Finding 7

One college did not always document voided or negative tuition receipts, and three colleges did not sufficiently document bookstore voids or refunds.

Rainy River (6 of 9 transactions tested, totaling $8,635) did not always document voided tuition receipts or negative receipt tuition transactions. In addition, Anoka-Ramsey, MnWest, and SE Technical did not always document explanations for voided bookstore transactions. Anoka-Ramsey also did not always document its bookstore refunds to allow for review by an independent employee. Twelve of fifteen Anoka-Ramsey bookstore refunds tested, totaling $15,580, did not have supporting documentation.

Voids and refunds are high-risk transactions because they allow the cashier to reduce cash and the corresponding recorded transactions. Independent authorization and documentation for voids and refunds is a standard internal control for safeguarding receipts.

Recommendations

- *Rainy River should document the reasons for negative receipt transactions to justify the legitimacy of those reductions.*

- *Anoka-Ramsey, MnWest, and SE Technical should establish procedures to sufficiently document and independently review voided bookstore transactions and bookstore refunds.*

Five colleges did not retain records to support important financial activity. **Finding 8**

Five colleges did not have documentation to support a variety of transactions selected for testing during our audits. Following is a recap of the missing documentation related to transactions included in our sample testing populations:

- MnWest was missing documentation to support over $650,000 of tuition and fee deposits at its Granite Falls campus for all of fiscal year 2005 and was missing documentation for some deposits in fiscal year 2006.

- Anoka-Ramsey was missing all documentation supporting two vendor payments totaling $139,600.

- Fond du Lac was missing evidence of obtaining bids for eight vendor payments totaling $130,075 and missing contracts for five payments for contractual services totaling $48,366.

- Itasca was missing a lease agreement supporting five payments totaling $3,150.

- Rainy River was missing procurement documents and invoices for four payments totaling $3,724.

Minnesota Statutes[8] require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities. Statutes further require that the chief administrative officer of each agency preserve the agency's records connected to the transaction of public business, including protecting these records from deterioration, mutilation, loss, or destruction. State policies reinforce this requirement.

Preserving public financial records is an important responsibility – it allows management to demonstrate its appropriate use of public resources and protects employees from accusations of error, illegality, and noncompliance. Without supporting documentation, the office and the colleges were unable to demonstrate that they procured goods and services in accordance with statutory and MnSCU provisions, accurately deposited receipts, made payments in accordance with authorizations and contracts, and appropriately used its resources to serve a public purpose.

Recommendation

- *The five colleges should improve controls over the retention of documentation supporting its financial transactions.*

[8] *Minnesota Statutes* 2007, 15.17, subd. 1 and 2.

Finding 9

Four colleges did not have controls to ensure it charged tuition to out-of-state students in compliance with board authorizations or tuition reciprocity agreements.

While routine resident tuition was properly assessed, four colleges did not have controls to ensure it charged out-of-state students the correct tuition or fees. The colleges did not verify that the tuition rates it charged complied with board-approved tuition and program rates or applicable reciprocity agreements with bordering states. The colleges had the following specific concerns:

- MnWest inappropriately waived a tuition surcharge applicable to its community college students from South Dakota without approval from the MnSCU Board of Trustees. Waiving the surcharge reduced the college's tuition revenue by $62,737 during fiscal years 2005 through 2007. In addition, for interactive television (off campus and nursing) courses, the college inappropriately continued to charge fiscal year 2006 tuition rates during fiscal year 2007 for students from South Dakota and Wisconsin.

- Anoka-Ramsey Community College erroneously charged fiscal year 2006 tuition reciprocity rates during fiscal year 2007 to all North Dakota students and to South Dakota students for certain courses. As a result, those students paid less per credit than did students from Minnesota and reduced the college's tuition revenue by about $950 out of $14,000 of fiscal year 2007 tuition revenue from North Dakota and South Dakota students.

- Hibbing Community College inappropriately added from $5 to $99 per credit as surcharges to its reciprocity tuition rates for Wisconsin students enrolled in certain programs and courses. The college also charged its Wisconsin students paying banded tuition rates in fiscal year 2006 $10 more than allowed by the reciprocity agreement. Because of Hibbing's limited enrollment of Wisconsin students, the total amount overcharged was not significant.

- Mesabi Range Community and Technical College overcharged two Wisconsin students when they attended classes on both its Virginia and Eveleth campuses; it overcharged one student $2,061 over four terms during fiscal years 2006 and 2007, and overcharged the other student $497 for one term in fiscal year 2006. In addition, Mesabi Range did not assess the community college surcharge to students from South Dakota for fiscal years 2005 and 2006. For fiscal year 2007, the college inappropriately added the surcharge to its tuition rate for technical college students, although it only applied to its community college students.

The colleges did not detect these tuition rate errors.

Recommendations

- *The four colleges should establish procedures to ensure they assess out of state tuition rates in accordance with the authorizations of the MnSCU Board of Trustees and in compliance with applicable reciprocity agreements.*

- *Mesabi Range Community & Technical College should refund the overcharged Wisconsin students.*

Finding 10

Two colleges did not use tuition or special program rates authorized by the MnSCU Board of Trustees.

MnWest did not use the authorized tuition rate set by the MnSCU Board of Trustees for the 2006 summer term.[9] Although the college proposed a 7.5 percent increase for the term's 2006 school year, the MnSCU Board of Trustees only approved a 7 percent increase. However, the college actually increased tuition by 7.5 percent and overcharged students $3,758 for the 2006 summer term.

SE Technical did not charge a special program tuition rate and instead assessed regular tuition rates plus an inappropriate $40, $250, and $350 gas surcharge fee to students in its truck driving program for fiscal years 2005, 2006, and 2007, respectively. The gas surcharge fee was inappropriate because it was not a charge for "items that become the personal property of a student, or for services for or on the behalf of a student," criteria established in MnSCU policy and procedure.[10] The net effect of the tuition rate differences resulted in the college collecting $2,688 and $2,330 less for fiscal year 2005 and 2006, respectively, and $5,835 more for fiscal year 2007.

Recommendations

- *MnWest should establish procedures to ensure it assesses tuition rates in accordance with the authorizations of the MnSCU Board of Trustees.*

- *SE Technical should work with the Office of the Chancellor to obtain specific approval for a gas surcharge fee or establish a program tuition rate that includes assessed gas costs.*

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[9] MnWest used a credit rate of $128.44 that was $0.87 higher than the board approved rate of $127.57.

[10] MnSCU Policy 5.11, Part 3, Subpart C and MnSCU Procedure 5.11.1, Part 5.

Finding 11

Two colleges inaccurately refunded tuition and fees to certain students.

Two colleges did not have adequate controls to ensure they accurately refunded tuition and fees to students. Refunds are high-risk transactions because determination of the refund amount is dependent on manual calculations and knowledge of up-to-date MnSCU refund criteria. The colleges made the following inaccurate tuition refunds:

- Hibbing Community College over-refunded $509 to a student for the fall 2005 term because its student handbook for that year erroneously had an outdated refund schedule that did not comply with MnSCU policy.[11] The college subsequently revised its student handbook; however, as of June 2008, the college's website continued to show the outdated refund schedule.

- Minnesota State College – Southeast Technical over-refunded a student $903 for the fall 2006 term because it paid the refund before it had determined the student's final financial aid award. The final financial aid award was less than the initial estimate, but the college had already made the refund to the student. The college properly pursued recovery of the overpayment, but ultimately wrote off the balance as uncollectible.

Recommendations

- *Hibbing Community College should ensure it publishes and follows refund schedules consistent with MnSCU policy.*

- *Minnesota State College – Southeast Technical should establish procedures to ensure it performs any financial aid award recalculations before disbursing refunds to students.*

Finding 12

Fond du Lac Tribal and Community College established an inappropriate policy to allow students with delinquent balances up to $250 to register for subsequent terms, in conflict with MnSCU requirements.

Fond du Lac's policy allowed students with delinquent account balances up to $250 to register for courses in subsequent terms. This policy conflicted with the MnSCU procedure[12] that requires colleges to prevent registration of students with delinquent balances exceeding $30 and to put a 'hold' on their official transcripts. Three of the nine students tested were able to register even though their delinquent balances exceeded $30.

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[12] MnSCU Procedure 7.6.2, Part 4, Subpart D

Recommendation

- *Fond du Lac Tribal & Community College should revise its policy to align with MnSCU procedures. The college should establish procedures to prevent registration and hold official transcripts for students with delinquent balances of $30 or more.*

Finding 13

Systemic Finding: The Office of the Chancellor and all nine colleges did not accurately account for faculty and administrator leave benefits.

The Office of the Chancellor and all nine colleges had errors in determining leave earned and posting of leave taken by some administrators and faculty to ensure compliance with bargained contracts and personnel plans. In addition, colleges inconsistently handled leave balance reductions when an employee left their MnSCU position. Errors in tracking sick and vacation leave earned and taken can result in inaccurate severance and vacation payoff payments when an employee terminates employment.[13] Knowing that these transactions are prone to error, the colleges need to have controls to ensure that they comply with personnel contracts and plans.

Our sampling and analysis of leave data found a variety of different types of errors in leave earned and taken. Appendix A provides more details regarding the following types of errors the Office of the Chancellor and the colleges made:

- Eight colleges did not post a total of 362 sick leave days earned by all faculty for summer instruction. (We identified all faculty that taught summer school but did not have leave earned posted to their leave record.)
- Five colleges did not detect a system error that resulted in eight administrators receiving an inappropriate extra day or two of leave.
- Four colleges and the Office of the Chancellor incorrectly adjusted the vacation leave balances for seven administrators, inappropriately providing them up to one extra day of leave.
- One college erroneously increased an administrator's vacation leave when processing an adjustment intended to reduce the leave.
- One college manually duplicated automated leave accruals earned for a faculty member.

[13] Errors in recording personal leave days earned by faculty do not impact separation payments at termination but may cause an employee to be denied paid leave they are entitled to, or may allow an employee to take paid leave they are not entitled to.

- Six colleges mistakenly provided sick and personal leave accruals to some adjunct faculty that taught too few credits to be eligible for leave.
- Three colleges incorrectly prorated the leave accrued and taken for some part-time faculty due to an inaccurate proration chart or wrong credit load.
- Six colleges and the Office of the Chancellor inaccurately posted leave used by administrators and faculty, as evidenced by their timesheets or leave usage forms.
- Four colleges did not post leave earned and taken each pay period, instead posting leave activity monthly, quarterly, or less often.
- Three colleges maintained leave records for part-time faculty manually rather than recording leave in MnSCU's personnel system.
- Seven colleges did not consistently account for leave balances of former MnSCU employees. Upon separation, the colleges either did not adjust the leave balance, reduced it by the amount of leave liquidated through vacation payoff or severance, or reduced the balance to zero.

MnSCU's personnel system[14] does not automate accruals and separation payments – staff must prompt the accruals or make significant manual calculations to determine these sometimes complicated amounts. MnSCU upgraded its personnel system in 2008; the system upgrades did not reduce the need for manual involvement by college staff. Office of the Chancellor can help colleges develop consistent ways to ensure the accuracy of these manual accruals and calculations.

Recommendations

- *The Office of the Chancellor and the colleges should improve control over accounting for administrator and faculty leave benefits by:*
  - *reviewing and correcting errors in leave accruals and leave taken;*
  - *having an independent employee review the accuracy of leave activity recorded in the personnel system;*
  - *developing an accurate chart for prorated leave calculations;*
  - *recording leave activity in the personnel system more frequently; and*
  - *maintaining leave records for part-time faculty in the personnel system.*

- *Colleges should establish policies to consistently reduce leave balances for former employees at termination.*

[14] MnSCU institutions maintain leave records for administrators and faculty in MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS).

Minnesota West Community & Technical College did not have an authorized agreement supporting additional compensation for certain assigned duties.

Finding 14

MnWest paid some faculty for 'reasonable credit equivalence' assignments that the college had not authorized in a written agreement. These types of assignments allow for a higher rate of compensation because of additional work required. The college paid 1.3 credits for each credit taught by some clinical training nursing instructors because of the additional demands of the one-on-one time allocated to students. For two instructors tested, the credit equivalence compensation added $1,530 and $2,580 to their respective paychecks. The Minnesota State College Faculty bargaining agreement[15] requires written mutual agreements between the faculty members, their union representative, and the college president or designee. The college had a memorandum of understanding for academic year 2000-2001, but failed to update the agreement for subsequent academic years. Not having a written understanding increased the risk that the college could improperly compensate a faculty member for these assignments.

Recommendation

- *Minnesota West Community & Technical College should ensure that an executed agreement is effective and on file for academic years in which they pay instructors reasonable credit equivalence.*

Six colleges did not independently monitor the accuracy of payroll transactions entered into the state's payroll system for hourly staff.

Finding 15

Anoka-Ramsey and the five colleges in the Northeast Higher Education District (Hibbing, Itasca, Mesabi Range, Rainy River, and Vermilion) did not independently verify employee timesheet hours and lump-sum payroll transactions to the state's payroll system transactions. Payroll expenses for hourly employees in fiscal year 2007 totaled nearly $8.4 million for Anoka-Ramsey and $11.8 million for the Northeast Higher Education District colleges. The colleges' payroll clerks[16] entered timesheet hours and payroll transactions; however, the same individuals verified the accuracy of that input to the payroll system's payroll register. State policies[17] require a review of the biweekly payroll register. Effective internal control would encourage verification of data by another employee not involved with the input of that data. The payroll register identifies all transactions the college processed each pay period, including current and retroactive salary adjustments, special lump-sum transactions, and changes to earning types, hours, and pay rates. An independent review allows for the

[15] Minnesota State College Faculty agreement for 2005-2007, article 11, section 7.
[16] One payroll clerk processed payroll for all five Northeast Higher Education District colleges.
[17] State Employee Management System (SEMA4) Policy PAY0028.

detection and correction of errors before payments are made. The lack of an independent review increases the risk that inappropriate transactions could go undetected.

Recommendation

- *Anoka-Ramsey Community College and the five Northeast Higher Education District colleges should have someone independent of the payroll input function review the payroll register for data input accuracy.*

Finding 16

The Office of the Chancellor and certain colleges had internal control weaknesses with documenting, processing, and recording various expense transactions in the accounting system.

Most entities reviewed 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.

We analyzed the full population of expenses and sampled hundreds of transactions in areas more prone to errors. Because these areas are more prone to error, colleges need to implement controls to ensure they comply with MnSCU Procedures. Appendix B provides details supporting the following recap of the types of errors the Office of the Chancellor and the colleges made:

- Five colleges initiated purchases and payments without sufficient authorization. For example, Vermilion initiated a construction project in excess of $250,000 without obtaining approval from the Office of the Chancellor, and Fond du Lac paid eight invoices totaling $35,550 without appropriate authorizations.

- The Office of the Chancellor and four colleges did not always promptly pay invoices and incurred unnecessary late fees. Late fees paid on the tested transactions totaled $2,965.

- Four colleges did not record the correct date of liability in the accounting system or made other coding errors. Colleges used the invoice date, invoice due date, or payment approval date rather than the date the college received the goods or services. One college used incorrect expense codes for both vendor payments and employee expense reimbursements.

- Seven colleges incurred obligations before encumbering funds, in violation of MnSCU policy.

- Three colleges inappropriately used purchase orders to procure nearly $55,000 of services rather than enter into contracts.

- Rainy River did not obtain sufficient bids for three purchases of supplies and equipment or for four service and construction contracts exceeding $10,000, as required by MnSCU procedures.

- Fond du Lac did not verify invoiced gas expenses to actual gas receipts or charge slips.

State statutes and MnSCU Procedures established specific requirements for procurement, contracts, and payments. Colleges that do not adhere to those procedures inappropriately increase their financial risk and deviate from expected practices important to the system and its operation.

Recommendations

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

- *The Office of the Chancellor should consider whether additional training is necessary to ensure compliance at the colleges.*

Finding 17

Eight colleges had internal control weaknesses with managing their equipment and sensitive assets.

Eight colleges, all except MnWest, had control weaknesses with recording and disposing of equipment and sensitive assets. In addition, colleges did not comply with requirements for physical inventory of those assets. These weaknesses undermined each college's ability to maintain appropriate accountability for equipment and sensitive assets and increased the risk of those assets being lost or stolen without detection.

- Asset Purchases - Seven colleges did not accurately record purchases of equipment and sensitive assets in MnSCU's equipment/capital asset module.[18] Colleges had the following errors:

[18] MnSCU Procedure 7.3.6, Part 5A requires all assets with a cost or valuation of at least $5,000 and all computers and weapons regardless of price or age to be recorded in the equipment/capital asset module.

- Mesabi Range miscoded an $11,610 purchase of equipment. As a result, it did not record the item in the equipment/capital asset module. In addition, the college did not properly record the value of two assets that it purchased. The college incorrectly valued equipment net of traded-in assets; it should have recorded the new assets at full value. As a result, the college undervalued the assets in the equipment/capital asset module by $4,460 and $17,000, respectively.

- Four colleges (Mesabi Range, Rainy River, SE Technical, and Vermilion) did not record equipment assets at the correct value. The colleges overstated the value of certain assets (ranging from $1,016 to $14,175) due to recording errors or vendor refunds.

- Five colleges (Fond du Lac, Hibbing, Itasca, Rainy River, and Vermilion) did not accurately record several sensitive assets in the equipment/capital asset module. The colleges did not always record computers purchased in the module. Itasca recorded 71 computers and a scanner at incorrect values. None of the colleges had procedures to reconcile purchases of sensitive items to recorded assets in the module to ensure that they properly recorded all purchased items.

➢ Asset Disposals - Six colleges did not promptly remove disposed assets from the equipment/capital asset module at the time of disposal, as required by MnSCU procedures.[19] Lack of control over asset disposals hampers physical inventory and makes it hard to determine if missing assets were possibly stolen. The colleges had the following problems:

- Academic departments and programs at Fond du Lac, Itasca, Mesabi Range, and SE Technical did not always notify the business offices of asset disposals. Itasca, Mesabi Range, and SE Technical learned of several asset disposals when they were unable to locate items during physical inventories. Fond du Lac, which did not conduct physical inventories, only removed two assets from the equipment/capital asset module during fiscal years 2005 through 2007.

- Itasca, Hibbing, and Vermilion did not always remove items from the equipment/capital asset module when they could not locate the assets during physical inventories. Itasca never updated the module for items previously indicated as unlocated or disposed of on its last physical inventory. Hibbing had not removed twelve assets disposed during fiscal year 2007 by the end of fiscal year 2008, and Vermilion did not remove ten assets disposed during fiscal year 2006 until March 2008.

- Hibbing and Mesabi Range did not always sufficiently document sales of equipment by identifying asset numbers for the sold equipment. Hibbing

[19] MnSCU Procedure 7.3.13, Part 2.

could not identify receipts supporting 13 disposed assets, and Mesabi Range could not identify receipts for 25 disposed assets, recorded in the equipment/capital asset module as sold. Without linking the receipt to the number for the asset sold, the colleges could not verify that they properly collected, deposited, and recorded the revenue from those sales or properly removed sold assets from the module.

- Asset Inventory - Seven of the colleges did not perform physical inventories of capital and sensitive assets in compliance with MnSCU procedures.[20] Anoka-Ramsey, Fond du Lac, Itasca, Mesabi Range, Rainy River, and Vermilion did not perform required annual physical inventories of all assets with an acquisition cost or value of $10,000 or greater. In addition, Fond du Lac, Hibbing, and Rainy River did not perform physical inventories of all other assets within three years as required. Finally, Hibbing, Itasca, Mesabi Range, and Vermilion did not properly document whether it located and verified certain assets during the physical inventories.

Recommendation

- *The colleges cited should improve internal controls over equipment and sensitive assets by implementing procedures to ensure that they:*

  - *properly record and accurately value all purchased assets in the equipment/capital asset module;*
  - *promptly remove disposed assets from the equipment/ capital asset module;*
  - *remove sold assets from the equipment/capital asset module and properly account for proceeds from equipment sales; and*
  - *periodically verify assets by conducting physical inventories in compliance with MnSCU policy.*

Finding 18

Four colleges did not provide sufficient oversight of employees' use of financial institution credit cards. They allowed inappropriate or undocumented purchases, did not appropriately limit credit card use, and did not block certain vendors or types of purchases.

Four colleges (Fond du Lac, Itasca, MnWest, and SE Technical) had weaknesses with their oversight of employee credit card purchases. MnSCU procedures specify allowable credit card uses, require original receipts to support purchases,

[20] MnSCU Procedure 7.3.6, Part 4.

and expect the colleges to set limits for employees and block an employee's ability to purchase certain items or use the credit card at certain vendors.[21]

The colleges had the following control weaknesses with employee use of credit cards:

- SE Technical's credit card policy conflicted with MnSCU procedures by allowing employees to purchase individual meals for overnight travel. Sample testing identified that seven meal purchases were made by SE Technical employees while in travel status. MnSCU procedures specifically prohibit use of the college credit cards for travel related expenses, such as meals, that should be reimbursed on an employee expense form.

- Three colleges (Fond du Lac, Itasca, and SE Technical) paid credit card bills without requiring employees to submit original itemized receipts for the items they purchased. SE Technical paid bills for 18 purchases without any receipts and another 16 purchases without itemized receipts. One credit card payment by Fond du Lac and two by Itasca did not have appropriate evidence. MnSCU procedures[22] require original itemized receipts for goods and services purchased with credit cards, and allow an employee to file an affidavit if the receipt is lost or not obtained. Without this key evidence, employees could purchase items for personal use or other inappropriate items without detection. The credit card statement does not provide itemized details for individual purchases to allow for an effective review. Itemized details of what the employee actually purchased are only available on the original receipts.

- Two colleges (Fond du Lac and SE Technical) did not set dollar limits for credit card purchases by employees, including per transaction or monthly limits. In addition, the two colleges and MnWest did not restrict the use of the credit cards by blocking purchases from certain vendors or merchant categories. MnSCU procedures[23] require colleges to establish these restrictions as part of their credit card purchasing program.

In addition, two colleges (Fond du Lac and SE Technical) inappropriately used credit cards to purchase food and beverages for multiple individuals without obtaining required special expense approval. SE Technical lacked special expense approvals for 23 purchases made during a six-month period, and Fond du Lac lacked approval for four purchases during a two-month period. MnSCU procedures allow for such purchases only for business-related meetings in compliance with MnSCU special expense procedures,[24] and only if approved in advance. Without approvals, the colleges could not demonstrate the legitimacy of the expenses in compliance with MnSCU procedures.

[21] MnSCU Procedure 7.3.3, Part 6.
[22] MnSCU Procedure 7.3.3, Part 7.
[23] MnSCU Procedure 7.3.3, Part 4.
[24] MnSCU Procedure 5.20.1.

Recommendations

- *The colleges cited should improve internal controls over employee credit card use by establishing procedures to ensure purchases are:*
  - *not used to acquire inappropriate items such as meals, ;*
  - *supported by original itemized receipts; and*
  - *subject to appropriate dollar limits and allowable merchant categories; and*
  - *used for special expenses only when authorized in advance.*

- *Minnesota State College – Southeast Technical should align its college credit card policy with MnSCU procedures governing credit card use.*

Two colleges reimbursed employees for questionable travel expenses.

Finding 19

Fond du Lac and SE Technical reimbursed employees for questionable travel expenses. The colleges had the following problems:

➢ Fond du Lac reimbursed some employees for business expenses that were either inappropriate or not supported by adequate documentation. The college paid the following inappropriate expenses:

  - The college did not verify eligibility for meals and lodging when staff departed early or stayed longer for an out-of-state trip or meals were provided as part of a conference. The college paid one employee for additional lodging and meals costing $144 without justifying why those added costs were business related or cost beneficial. For 6 of 11 items tested, the college did not obtain a conference itinerary identifying whether any meals were included in the conferences attended.

  - The college inappropriately paid employees for meals they were not eligible to receive because they were not in travel status or at inappropriate rates. The college reimbursed one employee for breakfast and another employee for dinner when they were not in travel status. In addition, the college reimbursed some employees the higher meal reimbursement rate for large metropolitan cities, even though the rates were not applicable since the employees were in Minnesota or had the meal in route.

  - The college reimbursed an employee for a $1,133 hotel bill without requiring the employee to provide a receipt. It also reimbursed an employee $105 for an unauthorized car rental and parking costs.

- SE Technical did not coordinate lodging costs for a faculty member that combined personal and business travel for an international trip. The employee combined a business trip with a family vacation and traveled to France and Italy for a month-long trip.[25] The college approved the trip in advance and agreed to reimburse the employee $2,325 to cover 12 of the 29 days of lodging and for admissions fees to museums, monuments, musical performances, and cultural events. However, the college actually reimbursed the employee $2,452. The portion related to lodging costs covered 15 days and included some hotel costs related to his family members. The college's reimbursement also included $207 for camera supplies – items not included on the approved out-of-state travel form. Finally, the college did not document, as required by MnSCU procedure, the foreign currency conversion rate it used to determine the amount it would reimburse the employee for foreign expenses.[26]

Recommendations

- *Fond du Lac and SE Technical should recover inappropriate or personal expenses reimbursed. The colleges should develop procedures ensuring that employees clearly identify their personal share of travel costs and document foreign currency exchange rates in order to justify the accuracy and legitimacy of the reimbursements.*

Finding 20

MnSCU procedures do not specify a process for employees to report airline travel benefits and one college did not properly account for personal frequent flyer benefits earned on reimbursed business expenses.

Minnesota Statutes and MnSCU procedures[27] require employees to identity and report any airline travel benefits received related to state business and accrue those benefits to the credit of the public entity. However, statutes further require agencies to develop policies and for employees to report travel benefits within 90 days. While the MnSCU procedure indicates that employees should report the receipt of airline travel benefits, it does not specify a process and timeframes for doing this.

Two Fond du Lac employees earned frequent flyer benefits for airline tickets purchased with personal credit cards and reimbursed by the college; the employees retained the benefits earned. The college did not have procedures for employees to report those travel benefits.

[25] MnSCU Procedure 5.19.3, Part 5 allows companions to travel with employees, but prohibits reimbursement for expenses incurred by those companions.
[26] MnSCU Procedure 5.19.3, Part 11, Subpart G.
[27] *Minnesota Statutes* 2007, 15.435, and MnSCU Procedure 5.19.3, Part 8.

Recommendations

- *The Office of the Chancellor should expand procedures to specify a process for employees to report travel benefits.*

- *Fond du Lac Tribal & Community College should develop procedures requiring reporting of frequent flyer benefits earned by employees for state-reimbursed expenses.*

Finding 21

Fond du Lac Tribal & Community College did not resolve outstanding travel advances totaling $1,863 it had paid to two employees.

Fond du Lac did not comply with the MnSCU policy[28] regarding travel advances – it did not recover outstanding travel advances from employee paychecks. The college had two advances totaling $1,863 that have been outstanding for approximately 10 years. One employee separated from state service without settling a $229 advance; the department referred that advance to the Department of Revenue Collections Unit to pursue recovery. The other employee, with an outstanding advance of $1,634 still works for the college.

Recommendation

- *Fond du Lac Tribal & Community College should pursue collection of the outstanding travel advances.*

Finding 22

Fond du Lac Tribal & Community College inappropriately provided health club memberships to faculty and staff.

The college paid $1,200 for health club memberships for faculty and staff use in fiscal year 2005 and spent $1,056 for four six-month health club memberships in fiscal year 2006. In addition, the health club bartered two additional weeks of membership in exchange for a nutritional class taught by the college. MnSCU policies and procedures limit expenses to those that provide a tangible benefit to the college. State statutes[29] prohibit benefits which are "not available to the general public."

[28] MnSCU Board Policy 5.19.3, Part 9, states that travel advances must be submitted within 5 days of returning from the trip and "advances not settled within 28 days of return date will be deducted in their entirety from the employee's paycheck."
[29] *Minnesota Statutes* 2007, 43A.38, subd. 5 (a).

Recommendation

- *Fond du Lac Tribal & Community College should prohibit expenses, such as health club memberships, that do not provide a tangible benefit to the college.*

Finding 23

Four colleges did not always deposit auxiliary receipts daily, as required by statute and MnSCU policy.

Fond du Lac, Mesabi Range, MnWest, and Vermilion did not always deposit money collected by bookstores, food service, or cosmetology areas in a timely manner, as required by state law and MnSCU policy. *Minnesota Statutes* and MnSCU policy[30] requires daily deposits of receipts totaling $250 or more. Specific errors included the following:

- Fond du Lac deposited four of the ten tested bookstore deposits exceeding $250 between one and ten days late.
- Mesabi Range's Eveleth campus did not routinely deposit its bookstore receipts until two days after receipt.
- MnWest's Pipestone campus did not deposit five of its ten tested cosmetology receipts within one business day. The campus held the largest of those untimely deposits (totaling $1,171) five days.
- Vermilion delayed deposits of two of five tested bookstore receipts and four of five tested food service receipts exceeding $250 for two or three business days.

Recommendation

- *The four colleges should implement procedures to ensure that they deposit all receipts that exceed $250 on a daily basis.*

Finding 24

Three colleges did not independently verify deposited receipts from auxiliary operations.

- Three colleges did not have adequate controls providing an independent verification that they properly deposited all receipts collected from auxiliary operations. Some cost-effective solutions would be to route deposit slips back to the originating operation or having an independent employee compare collections to cash register tapes or sales tapes. For fiscal year 2007, the Hibbing bookstore and food service collected $676,000 and $122,000, respectively; Rainy River bookstore collected $130,000, and MnWest-Pipestone cosmetology areas collected $46,000.

[30] *Minnesota Statutes* 2007, 16A.275, and MnSCU Policy 7.5, Part 2, Subpart C.

Recommendation

- *The three colleges should improve control procedures and ensure an independent verification that the college deposits all auxiliary receipts.*

Finding 25

Fond du Lac Tribal & Community College did not effectively manage its book inventory.

The college bookstore had obsolete inventory of 248 books valued at $12,320. The college could not return some of the books to the publisher or sell to used-book vendors because the books were older editions. Certain publishers refused to accept other books because the college did not promptly pay their invoices. Some of the outdated books were from the college's four off-campus outreach sites, located in Grand Portage, Mille Lacs, Minneapolis, and Red Lake. The college has had difficulty getting those sites to return unsold books in a timely manner. Ineffective management of book inventory reduced the bookstore's profits.

Recommendations

- *The college should return unsold books within a set timeframe after the start of each term. The college should create a formal process for returning unused books from the outreach sites.*

- *The college should ensure that book orders are paid within the vendor's grace period to ensure that books can be returned.*

Appendix A

Additional college details supporting Finding #13 – Leave Accounting

Regarding recording of earned vacation leave for administrators and earned sick and personal[31] leave for some faculty, we encountered several different types of errors, as discussed below:

- Five colleges (Anoka-Ramsey, Fond du Lac, Itasca, Rainy River, and SE Technical) recorded more vacation leave than certain administrators, employed less than five years,[32] were entitled to earn. Six administrators were inappropriately given an extra day in each of two separate fiscal years, and two others accrued an extra day in one fiscal year. The leave module in MnSCU's personnel system automatically accrued leave earned if prompted by college staff. However, the system incorrectly recorded vacation leave accruals for a 23rd pay period of a fiscal year for these administrators, and college staff did not detect or correct the additional leave provided.

- Four colleges (Fond du Lac, Hibbing, Itasca, and Vermilion) and the Office of the Chancellor incorrectly adjusted the vacation leave balances for eight administrators. Hibbing, Itasca and the Office of the Chancellor made adjustments to change vacation leave accruals for partial pay periods worked by five newly hired administrators. However, those adjustments caused the leave accruals to exceed the contract limit by up to one day. Vermilion manually added an extra vacation day[33] for two administrators without recognizing the system already included the extra day in its automated accrual. Fond du Lac recorded an adjustment to reduce one administrator's vacation leave but inadvertently increased the balance instead. In addition, Hibbing adjusted a faculty member's sick leave by ten days and personal leave for two days. However, the college did not recognize that it duplicated leave accruals that were also posted as part of an automated system accrual during a later pay period.

- Eight colleges (Anoka-Ramsey, Fond du Lac, Hibbing, Mesabi, MnWest, Rainy River, SE Technical, and Vermilion) did not properly record

[31]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.
[32] The Minnesota State Colleges and Universities Administrators Plan for 2005-2007, Appendix A provides for administrators with less than five years of continuous state service to accrue one day of vacation leave for each of the first 22 full pay periods worked during each fiscal year.
[33] The Minnesota State Colleges and Universities Administrators Plan for 2005-2007, Appendix A provides for administrators to accrue an extra day of vacation leave in lieu of a floating holiday beginning in fiscal year 2007.

additional sick leave accruals earned by faculty for summer instruction.[34] The colleges did not properly prompt the personnel system's leave module to record sick leave accruals for summer instruction, which requires generating a separate report specifically for those accruals. Table 3 summarizes the unrecorded accruals:

Table 3
Unrecorded Sick Leave Accruals Earned for Summer Instruction

	Unrecorded Sick Leave Days			
College	**FY05**	**FY06**	**FY07**	**Total**
Anoka-Ramsey Community College	73	0	0	73
Fond du Lac Tribal and Community College	32	26	38	96
Hibbing Community College	5	34	35	74
Mesabi Range Community & Technical College	27	0	0	27
Minnesota State College – Southeast Technical	21	29	18	68
Minnesota West Community & Technical College	7	2	2	11
Rainy River Community College	2	1	2	5
Vermilion Community College	6	0	2	8

Source: MnSCU Integrated Statewide Record System.

– Six colleges (Anoka-Ramsey, Fond du Lac, Hibbing, Itasca, Rainy River, and SE Technical) did not properly distinguish between adjunct and part-time faculty[35] in the system's leave records and mistakenly provided sick and personal leave accruals to some adjunct faculty. Since the system does not automatically distinguish credit load status changes between adjunct and part-time faculty for leave accruals, colleges need to monitor leave to ensure leave accruals are accurate.

– Three colleges (Fond du Lac, Itasca, and Mesabi) did not properly record personal and sick leave earned by some part-time faculty. Part-time faculty accrue prorated leave based on the assigned credit load by semester. Each college prorated the leave accruals based on incorrect credit loads.

- Regarding leave <u>taken</u> or used, six colleges (Anoka-Ramsey, Fond du Lac, Hibbing, Mesabi, Rainy River, and SE Technical) and the Office of the Chancellor did not always accurately post leave used by administrators and faculty. Our sample testing of leave taken (as recorded in the system leave module) showed differences from the vacation and sick leave recorded on administrators' timesheets or faculty members' personal or sick leave usage

[34] The Minnesota State College Faculty Agreement for 2005-2007, Article 14, Section 3, Subd. 4 provides for faculty to accrue an additional day of sick leave for every multiple of three summer instruction credits assigned, up to three additional days.
[35] 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.

forms. Because no independent employee verified the accuracy of recorded leave taken to the timesheets or leave forms, the differences went unnoticed.

Three colleges (Hibbing, Itasca, and MnWest) did not properly calculate prorated personal and sick leave taken by some part-time faculty. Colleges must prorate leave taken by part-time faculty based on the assigned credit load by semester.[36] Hibbing and MnWest prorated leave taken by part-time faculty using a chart prepared and distributed by the Office of the Chancellor; however, that chart was incorrect. The college's calculation errors caused them to only record half of the leave that it should have posted. Itasca mistakenly prorated leave taken based on incorrect faculty credit loads.

Four colleges (Itasca, Mesabi, Rainy River, and Vermilion) did not post leave earned and taken on a pay-period by pay-period basis. Instead, the colleges posted the leave activity monthly, quarterly, or even less frequently. Infrequent posting causes leave balances to not be current and increases the likelihood that leave usage slips could be misplaced prior to posting.

- Three colleges (Itasca, Mesabi, and Vermilion) did not maintain leave records for part-time faculty in MnSCU's personnel system. Instead, the colleges maintained manual records of leave earned and taken by those part-time employees. Manual leave records have an increased risk of error and are excluded from consideration in measuring year-end compensated absences liability.

- Seven colleges (Anoka-Ramsey, Hibbing, Itasca, Mesabi, Rainy River, SE Technical, and Vermilion) did not consistently account for leave balances of separated employees at termination. The colleges did one of three options: a) did not reduce the leave balance at all, b) reduced the leave balances by the amounts liquidated for vacation payoffs and severance, or c) reduced the leave balance to zero. Although MnSCU has not established a standard practice for colleges to follow, colleges should be consistent and, at a minimum, reduce leave balances by the amount liquidated. Each college needs to establish its own policy for handling of leave balances for terminated employees and to develop procedures to ensure it consistently applies that policy.

[36] Minnesota State College Faculty Agreement for 2005-2007, Article 14, Section 6.

APPENDIX B

Additional entity details supporting Finding #16 – Expense Controls

Office of the Chancellor

- paying several invoices after the due date, causing $908 in late charges in one instance.

Anoka-Ramsey Community College

- incorrect coding of transaction obligation dates using the invoice date, invoice due date, or payment approval date, rather than the date the goods were received or services rendered;
- not promptly paying invoices for nine transactions tested; and
- increasing encumbrances after vendor-issued credit card purchases were made.

Fond du Lac Tribal & Community College

- incurring obligations before encumbering funds for several transactions;
- not paying invoices promptly for 23 transactions tested, causing $1,475 in finance charges and late fees;
- incorrect recording of transaction expense codes and obligation dates for both vendor payments and employee expense reimbursements;
- not reconciling invoiced gasoline costs to actual gas receipts;
- allowing an employee to initiate purchases without delegated authority; and
- paying eight invoices totaling $35,550 that did not have appropriate approvals.

Hibbing Community College

- using a purchase order rather than a construction contract for a repair project totaling $10,031, including $1,200 of disputed additional work beyond the original bid; and
- incurring obligations before encumbering funds in the accounting system.

Itasca Community College

- incurring obligations without the proper authority and before encumbering funds.

Minnesota State College – Southeast Technical

- paying utilities invoices and credit card charges after the due date, causing $547 and $35 in late fees, respectively; and
- incorrect coding of transaction obligation dates using the invoice date, invoice due date, or payment approval date rather than the date the goods were received or services rendered.

<u>Minnesota West Community & Technical College</u>

– incurring obligations before encumbering funds in the accounting system; and
– allowing employees to sign contracts exceeding the employees' purchasing authority.
–

<u>Rainy River Community College</u>

– not obtaining multiple quotations for three purchases of supplies and equipment, or for four service and construction contracts, exceeding $10,000, as required by MnSCU procedures;[37]
– using purchase orders rather than a formal contract for three repair projects that cost between $2,745 and $22,537 and an advertising services project for $14,540;
– incurring obligations before encumbering funds in the accounting system;
– incorrectly coding transaction obligation dates by using the invoice date or some other date rather than the date goods were actually received or services rendered; and
– paying invoices after the established due date.

<u>Vermilion Community College</u>

– not obtaining approval from the Office of the Chancellor for a construction project exceeding $250,000, as required by MnSCU procedures;[38]
– increasing several encumbrances without proper authorization and after additional obligations were incurred;
– incurring obligations before approving requisitions and encumbering funds; and
– using a purchase order rather than construction contract for a $4,869 project.

[37] MnSCU Procedure 5.14.5, Part 4; and MnSCU Procedure 6.5.5, Part 5.
[38] MnSCU Procedure 6.5.5, Part 2.

OFFICE OF THE CHANCELLOR

WELLS FARGO PLACE
30 7TH ST. E., SUITE 350
ST. PAUL, MN 55101-7804

ph 651.296.8012
fx 651.297.5550
www.mnscu.edu

Minnesota
STATE COLLEGES
& UNIVERSITIES

October 3, 2008

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 nine colleges 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. We were pleased to note in your transmittal letter that *"The Minnesota State Colleges and Universities and the nine colleges included in our scope generally had adequate control over major financial areas..".* The letter further notes that *"For the items tested, with certain exceptions, the Office of the Chancellor and the individual colleges complied with finance-related MnSCU policies and legal requirements."*

We have hired your office for special audit coverage for over ten years, ever since the merger of the predecessor organizations. The relationship has provided valuable insight and guidance to the work of our diverse business offices across the system. The work of your staff is in addition to the audits we obtain from commercial audit firms. We have received un-qualified opinions on the system's financial activity and that of the twelve largest college and universities since we began that effort with the financial activity of FY2002.

It is our view that the issues identified by your staff are for the most part isolated instances of error and easily remedied. We judge four of the twenty five findings to be matters of board policy implication and/or system wide procedural improvement. We will work with the Board of Trustees and staff to remedy these issues.

We have evaluated all of the findings with the college staff. The colleges and Office of the Chancellor have developed the action plans, as cited in this response, to implement the necessary improvements. On behalf of the presidents and financial management staff at each of the colleges 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.

LM King

Laura M. King
Vice Chancellor – Chief Financial Officer

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

Minnesota State Colleges & Universities
Response to the audit of nine colleges and the Office of the Chancellor
October 2008

Finding 1 - Systemic Finding: The Office of the Chancellor and the colleges did not design, document, or monitor detective controls to mitigate the risk created by granting incompatible employee access to certain computer system functions. Some employees had unneeded computer system access.

The Office of the Chancellor will work with the identified colleges to review security rights, make necessary adjustments and document controls.

Hibbing Community College will follow the policy of the Office of the Chancellor.

Minnesota State College-Southeast Technical has a small business office staff which creates challenges in granting access to the accounting system without creating some security incompatibilities. As the audit report notes Southeast Technical has written detective control procedures already in place. Most incompatibilities have already been addressed and those that have not are being added and updated to address any shortfalls. Most incompatibilities were the results of backup roles of current staff and have since been removed.

Rainy River Community College agrees with this finding and will take steps to correct and or document effective control strategies and mitigating controls.

Itasca Community College agrees with this finding and will take steps to correct and or document effective control strategies and mitigating controls.

Relative to the incompatible access for accounts receivable and accounts payable functions, Vermilion Community College (VCC) will work with the Office of the Chancellor staff to identify risks and develop any additional necessary effective control strategies to address incompatible access. Due to the small size of the business office staff at VCC, it is difficult to separate duties. Therefore, mitigating controls will continue to be developed and tested to reduce the risks of incompatible access. VCC will implement proper controls to immediately delete any unnecessary access rights.

Mesabi Range Community and Technical College has deleted all unnecessary access which is deemed not necessary for employee’s job duties. In instances where Mesabi Range has employees with incompatible securities, but deems them necessary to all for the most efficient operation of the College, queries have been developed or are being worked on with the office of internal auditing to develop these queries. Reviews then will be done by the CFFO or other appropriate supervisors to mitigate any potential risks.

Mesabi Range Community and Technical College has been running queries for back dated Drops and waivers for a number of years. The CFFO has been reviewing and doing random checks to verify all proper documents are on file authorizing these transactions. The CFFO will document the control procedure by keeping copies of the waiver and back dated drop petitions. These queries and verifications are done each semester.

The Mesabi Range Community and Technical College's Business Office will run a report on employee tuition waivers each semester and submit to Human Resources for a check to verify all are accurate and appropriate.

Minnesota West Community and Technical College agrees that there are individuals with incompatible access rights within ISRS. The College is developing mitigating controls for business cycles affected by incompatible access.

Fond du Lac Tribal and Community College concurs with this finding. Incompatible access in the Accounts Receivable and Accounts Payable functions will be deleted and duties will be separated.

Finding 2 - Rainy River Community College did not monitor its bank account balance or reconciliations and incurred bank overdraft fees totaling nearly $6,000.

The Office of the Chancellor will complete bank reconciliations on behalf of the college through December 2008. The college will complete training and assume responsibility in January 2009.

Finding 3 - Minnesota West Community and Technical College did not maintain sufficient collateral for its local bank accounts.

Minnesota West Community and Technical College agrees with this finding. MnWest was using a floating collateral process whereby the bank adjusted the collateral each day based on the end of day balance. When it was determined that the collateral was not actually pledged until the following morning, the college changed the process to a stipulated amount. Since that time, the college has not been under collateralized in the treasury sweep account. The College will maintain diligence in monitoring cash balances, requesting additional collateral and wiring funds when necessary.

Finding 4 – Systemic Finding: Eight of nine colleges did not have contracts for banking services and had not rebid banking service relationships that exceeded five years.

The Office of the Chancellor will work with the colleges to assure contracts are in place for banking relationships and those relationships are periodically bid out. The Office of the Chancellor will revise procedures to more clearly express bidding and contract expectations.

Minnesota State College-Southeast Technical has started putting together a RFP for banking services to be published before the end of the calendar year. The accepted proposal will be secured with a written contract.

Rainy River Community College will participate in a district wide RFP process which will be completed and effective for services available as of June 2009.

Itasca Community College will participate in a district wide RFP process which will be completed and effective for services available as of June 2009.

Vermilion Community College will rebid its banking services and document the banking relationship and its parameters in a written contract, as reviewed by the Office of the Chancellor staff.

Hibbing Community College will rebid its banking services and document the relationship with a written contract.

Prior to January 1, 2009, Mesabi Range Community and Technical College will do an RFP for banking services. After the award has been made, the college will work with the Office of the Chancellor in developing a written contract formalizing the terms of the banking agreement.

Minnesota West Community and Technical College published an RFP for banking services earlier this year. There was only one qualified response so the College has issued anther RFP with responses due in October. The timeline calls for implementation before January 1, 2009.

Fond du Lac Tribal and Community College The College concurs with this finding. Guidance will be requested from the Office of the Chancellor on a template for proposal advertising and exact contract language.

Finding 5 - All nine colleges inappropriately retained sensitive student credit card information in their tuition or auxiliary revenue's financial records.

The Office of the Chancellor has undertaken a system wide review of credit card transaction management. Further, review and guidance from legal counsel will be obtained in order to resolve conflict between data practices standards and the auditor's standards.

Minnesota State College-Southeast Technical has updated its technology to mask credit card numbers in its receipt documentation. Current files containing any credit card information are currently being shredded to eliminate all risk.

Rainy River Community College agrees with this finding and will take steps to mask sensitive information on receipts. The college will also establish procedures for timely destruction of receipts.

Itasca Community College agrees with this finding and will take steps to mask sensitive information on receipts. The college will also establish procedures for timely destruction of receipts.

Anoka Ramsey Community College had already begun securely shredding credit card information within 6 months of the transaction. The college will revise its approved records retention policy and procedure in regard to credit card information to securely shred the records promptly after each semester.

Vermilion Community College will develop an internal procedure to identify the retention period for credit card information. Documentation beyond the retention period will be shredded in a timely manner to ensure confidential, secure disposal of the information. The College will work with the Office of the Chancellor to fully comply with PCI Data Security Standards.

Mesabi Range Community and Technical College has begun destroying all documentation that contains the full credit card information for all terms except the current Term, fall of 2008. The College will destroy these documents at the end of each semester unless guidance from the Office of the Chancellor directs us to do this at different timelines.

Mesabi Range Community and Technical College will no longer keep credit card receipts in the college's bookstore on the Virginia Campus. These receipts will be kept in a locked file case in a locked room with the business office receipts.

Minnesota West Community and Technical College has converted to the newest version of ICVerify for credit card processing within the last year. This version of software meets all security requirements. The college will verify that all current paper records including account information are destroyed and no new paper records are printed.

Fond du Lac Tribal and Community College concurs with this finding. Credit card information will be destroyed timely. Procedure will be written.

Finding 6 - Two colleges had tuition cashiers who shared accounting sessions and cash drawers, and eight colleges had cashiers in bookstore, food service, or other receipt areas that shared cash drawers.

The Office of the Chancellor will work with the identified schools to correct practices and document detective control methods.

Minnesota State College-Southeast Technical now uses separate cash drawer numbers and separate sign on numbers for all cashiers. No shared drawers or numbers are allowed.

Anoka Ramsey Community College agrees with the finding and will request an increase in imprest cash balance to allow enough cash on hand for more drawers to avoid this issue during peak periods.

Rainy River Community College agrees with this finding. Procedures will be written on the use of cash drawers and cash sessions for all registers. Effective detective controls will be established.

Vermilion Community 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. The college has examined effective controls, including monitoring 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 follow up had been initiated. An overage/shortage sheet will be developed for further tracking of these items.

Mesabi Range Community and Technical College's bookstore on the Virginia Campus does have employees share one cash register and one cash drawer. There is one full-time employee who does most of the transactions. There are work study students that will assist in ringing up a transaction when working. Each time a person rings up a transaction they have to put in their individual ID before they can ring up a transaction. A report can be run at the end of the day showing the number of transactions and dollar amount rung up by each ID number. There have not been instances of many cash shortages in the Mesabi Range – Virginia Bookstore. If there were, this would be reported to the CFFO by the Business Office staff member that counts the cash. At that time the report by ID number would be generated and an investigation would be initiated. Mesabi Range is hesitant to set up separate cash drawers for each of these student workers that may or may not ring up a transaction each time they work. Mesabi Range believes having additional cash drawers with additional cash on hand is a bigger risk than the fact that each individual does not have an individual cash drawer. The college tries to keep limited cash on hand. The college is willing to discuss this, but does not think the cost benefit for the risk involved justifies the expense and additional risk of more cash at the campus.

Minnesota West Community and Technical College does not agree with this entire finding. While it is true that cash register drawers are shared, no college employee shares cash sessions on ISRS. The college's campuses are not large enough to have more than one cash register in each bookstore and therefore, one cash register may used by more than one person per day. However, each day the cash register receipts are reconciled to funds collected. The college will seek to secure different cashiering equipment when replacing current equipment at the end of its useful life.

Fond du Lac Tribal and Community College concurs with this finding. Separate cash drawers will be implemented.

Itasca Community College will write procedures on the use of cash drawers and cash sessions for all registers. ICC will document the assessment of sharing cash drawers for efficiency. The College will develop, document, and monitor effective detective controls.

Finding 7 - One college did not always document voided or negative tuition receipts, and three colleges did not sufficiently document bookstore voids or refunds.

The Office of the Chancellor will work with the identified schools to correct practices and document detective control methods.

Minnesota State College-Southeast Technical has established procedures to document all voided bookstore transactions. All receipts are kept and all documented voids are attached to daily deposit records for review by CFO.

Anoka Ramsey Community College agrees and is in the hiring process for an accounting officer position that will independently review bookstore voids and refunds to ensure proper documentation exists for these transactions.

Rainy River Community College will establish procedures on the approval and documentation needed for voiding or/and processing a negative receipt. Files will be maintained by fiscal year with documentation. Cash sessions including voided and negative receipts will be maintained on a daily basis.

Minnesota West Community and Technical College agrees with this finding. The College will again emphasize the necessity of retaining documentation of voided or negative receipts and integrate a checkpoint for such documents in the deposit process.

Finding 8 - Five colleges did not retain records to support important financial activity.

Minnesota West Community and Technical College agrees with this finding. The College's storage of prior year documents has been in a secure area that is accessible by a handful of employees. To ensure the retention of financial records, filing cabinets will be placed in the Business Office area that will accommodate seven years worth of records.

Anoka Ramsey Community College agrees and is currently implementing a document imaging process which will improve the efficiency and accuracy of documentation storage and location. The Business Manager will oversee implementation by 6/30/09.

Fond du Lac Tribal and Community College concurs with this finding. The bid in question was conducted by an adjunct faculty member (grant funded) that did not keep bids. All bidding will be completed and documents held by the college's purchasing department. Procedure will be written. Contracts are used for most services purchases including maintenance, food service, and repairs.

The Rainy River and Itasca Community College's CFO will discuss with their Business Offices the importance of correct filing. Work studies will also be trained on the importance of correct filing. The CFO will hold a working session on proper documentation and approval needed prior to payment, and methods of obtaining the needed documentation from requester.

Finding 9 - Four colleges did not have controls to ensure it charged tuition to out-of-state students in compliance with board authorizations or tuition reciprocity agreements.

The identified colleges have altered practices and developed additional review procedures to prevent future occurrence.

Mesabi Range Community and Technical College has refunded the two Wisconsin Reciprocity Students that were over charged in 2006 and 2007. This should not be a problem starting with 2008 because Wisconsin Reciprocity does not call for banded tuition. Mesabi Range will look at it Wisconsin Reciprocity Students to verify that charges are accurate.

Mesabi Range Community and Technical College has set up its tuition tables in 2008 and 2009 and will in all future years comply with the SD Reciprocity rules so that the tuition surcharge only applies to the community college classes and not the technical classes.

Anoka Ramsey Community College agrees and this issue has been resolved due to the elimination of a non-resident tuition rate.

Minnesota West Community and Technical College agrees that tuition was incorrectly waived for South Dakota residents enrolled in liberal arts majors. The college discontinued this practice during FY07. The college also agrees that FY06 rates for off campus and nursing courses were inadvertently charged to South Dakota and Wisconsin students in FY07. The college will complete an independent verification of tuition rates each year.

Finding 10 - Two colleges did not use tuition or special program rates authorized by the MnSCU Board of Trustees.

The identified colleges have altered practices and developed additional review procedures to prevent future occurrence.

Minnesota State College-Southeast Technical will be working with the Office of the Chancellor to obtain approval for its gas surcharge used in its truck driving program. The obsolete tuition rate will also be corrected with the help of the Office of the Chancellor.

Minnesota West agrees with this finding. The college will recalculate summer tuition in future terms if the rate requested is different than the rate ultimately approved by the Board of Trustees.

Finding 11 - Two colleges inaccurately refunded tuition and fees to certain students.

Minnesota State College-Southeast Technical College allowed a student to withdraw from the college with a tuition refund. The college processed the refund and it was later determined that the Financial Aid Office needed to return Title IV funds. The college has now implemented a process of printing a fee statement before refunds are given. If the fee statement indicates the student received financial aid, the college will then check to make sure that return of Title IV funds is not required before the refund is given to the student.

Finding 12 - Fond du Lac Tribal and Community College established an inappropriate policy to allow students with delinquent balances up to $250 to register for subsequent terms, in conflict with MnSCU requirements.

Fond du Lac Tribal and Community College concurs with this finding. Board policy has now been followed since June of 2008. The hold threshold is now input at $30.00.

Finding 13 - Systemic Finding: The Office of the Chancellor and all nine colleges did not accurately account for faculty and administrator leave benefits.

The Office of the Chancellor will augment current training efforts with additional information concerning the importance of accurate leave benefit calculations. The training will include access to accurate charts and guides. The Office of the Chancellor is considering the recommendations regarding establishment of an independent review procedure.

Vermilion Community College has correctly adjusted the vacation days for two administrators, correctly recorded the sick leave accruals earned by faculty for summer instruction, automated the part-time leave records that were maintained manually, and will work with the NHED Human Resource Department to post leave records on a pay-period by pay-period basis. Vermilion Community College will also work with the NHED Human Resource Department correct leave balances of separated employees, and to set up a process for consistent accounting at termination.

Minnesota West Community and Technical College agrees with this finding. The Human Resources/Payroll department will record summer sick leave accruals and calculate prorated person and sick leave for part-time faculty as per the MSCF contract.

Fond du Lac Tribal and Community College concurs with this finding, albeit it is believed to be a computer module issue. College staff worked closely with the OLA team on site to determine the cause of this finding. It was determined that input was accurate for faculty, yet the computer module created “errors” that will require monitoring. Administrator leave monitoring is also monitored.

Anoka Ramsey Community College agrees and will improve control over accounting for leave benefits including, reviews by independent employees, more frequent entry in the personnel system, and will establish a procedure to consistently reduce leave balances of former employees at termination. Business Manager will oversee implementation by January 2009.

The Rainy River and Itasca Community Colleges will develop routine procedures. More discussions are needed.

Finding 14 - Minnesota West Community & Technical College did not have an authorized agreement supporting additional compensation for certain assigned duties.

Minnesota West Community and Technical College agrees with this finding. The Human Resources office will assist the instructional administration in developing reasonable equivalency agreements for nursing faculty teaching clinical courses.

Finding 15 - Six colleges did not independently monitor the accuracy of payroll transactions entered into the state's payroll system for hourly staff.

The Office of the Chancellor is considering the recommendations regarding establishment of an independent review procedure. State policy PAY0028 does require review but not an independent review.

Rainy River Community College's Human Resources and Administration will develop procedures.

Itasca Community College's Human Resources and Administration will develop procedures.

Finding 16 - The Office of the Chancellor and certain colleges had internal control weaknesses with documenting, processing, and recording various expense transactions in the accounting system.

The Office of the Chancellor will work with the identified colleges to improve and correct payment processing methods.

Minnesota State College-Southeast Technical has procedures in place to ensure internal control in documenting, processing, and recording expense transactions. The procedures were adequate, but not fully followed at the time of error. Additional checks and balances in place caught the error after the fact. Additional training will take place in the business office to ensure that the procedures are effective prior to an error and additional steps will be added as a safety net.

Vermilion Community College is creating a spreadsheet to properly account for construction costs that include bids and change orders to insure that no projects exceed the requirement for MnSCU approval procedure. The same document will be used to monitor projects for construction contract use if work is added to an original purchase.

Hibbing Community College will do its best to make sure to use the correct purchase orders and that funds are encumbered in the accounting system before incurring obligations. The CFO is currently working on a change in procedure whereas all 16A forms would need to be filled out by the violating party and reported directly to the CFO.

Mesabi Range Community and Technical College continues to try to enforce the state statute and MNSCU policy on not allowing employees to obligating the college prior to encumbering funds. In the samples that were noted in this report, both had 16A letters from the employees indicating what happened and what corrective action they would take so this would not happen again. The College will distribute the MNSCU policy annually to all employees; present the policy in new employee orientation and make every effort to inform every employee of the policy and proper procedures.

Fond du Lac Tribal and Community College generally concurs with this finding. A new purchasing procedure was approved in November of 2007 that outlines stringent guidelines and addressing employee non-compliance. A request has been made to MnSCU Internal Audit to test purchasing procedures, payments, and occurrence dates. The College will more stringently monitor for correct approvals. Reconciliation of gas charges to billings will be implemented.

Minnesota West Community and Technical College agrees with this finding. The College will continue to emphasize the importance of encumbering funds before obligations are incurred. Additionally, the College will continue to monitor non-compliance and address violations with employees and their supervisors.

Minnesota West Community and Technical College agrees with this finding. New delegation of authority forms completed this past summer served to reinforce limits set and also offered an opportunity to adjust limits for some employees. Care will be taken to assure that contracts are only signed by those with authority to do so.

Anoka Ramsey Community College agrees and will continue to work on proper coding, prompt payment and purchasing rules in the training of the new purchasing and accounts payable staff.

Rainy River Community College will institute ongoing training of all employees on State and MnSCU policies. See Finding 9 also.

Itasca Community College will institute ongoing training of all employees on State and MnSCU policies. See Finding 9 also.

Finding 17 - Eight colleges had internal control weaknesses with managing their equipment and sensitive assets.

Minnesota State College-Southeast Technical is strong in its asset control conducting annual physical inventories and completing independent spot checks periodically during the year. An independent committee is currently being formed and will be trained to spot check inventory more frequently and the business office will go to semi annual reviews of inventory records to ensure accurate recordings of acquisitions and disposals.

Vermilion Community College has begun its physical inventory of assets over $10,000, and has begun its improvement of the physical inventory process.

Hibbing Community College needs to update its accounting system to improve internal controls over equipment and sensitive assets. This will be accomplished by implementing procedures to ensure that purchased assets that are required to be in the equipment/capital asset module are properly and accurately recorded. Procedures will also require that disposed assets are promptly removed from the equipment/capital asset module and the proceeds from equipment sales are properly accounted for. The College will periodically verify assets by conducting physical inventories in compliance with MnSCU policy.

Mesabi Range Community and Technical College will use the proper object codes for the purchase of equipment. The College will only add items purchased with object code 4000 to the equipment module and will value equipment correctly at full value and not reduce by the amount of a trade-in. Items identified in the audit will be corrected.

Fond du Lac Tribal and Community College concurs with this finding. A comprehensive inventory was conducted in the summer of 2008. All equipment (including sensitive equipment) is now entered into the asset module. Outdated and broken equipment has been purged. Disposal procedure has been written and form created that has appropriate approvals. Advertisement and disposal/sale of the purged equipment will be conducted.

Anoka Ramsey Community College agrees in 2006 during a turnover in the responsible position the required annual inventory was missed but was completed in both 2007 and 2008.

Rainy River Community College needs to complete written procedures on annual inventories, sensitive assets, computers, and items over $4000 and disposal. Proper training is needed on the module and importance of accuracy.

Itasca Community College needs to complete written procedures on annual inventories, sensitive assets, computers, and items over $4000 and disposal. Proper training is needed on the module and importance of accuracy.

Finding 18 - Four colleges did not provide sufficient oversight of employees' use of financial institution credit cards. They allowed inappropriate or undocumented purchases, did not appropriately limit credit card use, and did not block certain vendors or types of purchases.

Minnesota State College-Southeast Technical has substantially revamped its credit card procedures for employee use of credit cards. The number of cards has been greatly reduced, dollar limits have been reduced, merchant categories have been restricted and employee training is being conducted on proper use of cards. The College's credit card policy is being aligned with MnSCU procedures governing credit cards. Credit card receipts are being scrutinized and monitored according to newly established procedures. Accountability has been elevated to a new level.

Minnesota West Community and Technical College agrees in part with this finding, however wishes to express their concern. The College does set dollar limits per transaction and per month but does not block merchant codes on credit cards. After several rejected credit card transactions based on the merchant code chosen by the business, the College released all blocks originally made. The College monitors the credit card transactions for legitimacy and addresses any inconsistencies if necessary. No further action will be taken unless instructed to do so.

Fond du Lac Tribal and Community College concurs with this finding. The College is exploring using the MnSCU Purchasing Card system with US Bank and awaits guidance in October from the Office of the Chancellor regarding renewal of the US Bank contract.

Itasca Community College will include limiting use of certain vendors in the bank bid for services. Procedures are being written, consequences need to be implemented for lost or no receipts.

Finding 19 - Two colleges reimbursed employees for questionable travel expenses.

Minnesota State College-Southeast Technical is currently establishing procedures to ensure that employees that travel with their families clearly identify and separate any expense that does not belong to the employee. Out of state and international travel procedures are also being reviewed and updated to ensure compliance with MnSCU policy and procedure. All payments that are identified as incorrect will be recovered from employees.

Fond du Lac Tribal and Community College concurs with this finding. The MnSCU Board Code of Ethics has been distributed with discussion to the College's Leadership Team. A mailing and posting on the College's website will reference this highlight. In addition, a letter will be written to the two employees requesting the miles be deleted from their respective accounts.

Finding 20 – MnSCU procedures do not specify a process for employees to report airline travel benefits and one college did not properly account for personal frequent flyer benefits earned on reimbursed business expenses.

The Office of the Chancellor will review the state guidelines and determine appropriate action.

Finding 21 - Fond du Lac Tribal & Community College did not resolve outstanding travel advances totaling $1,863 it had paid to two employees.

Fond du Lac Tribal and Community College concurs with this finding. Referral to the Minnesota Department of Revenue for collection will occur. Reimbursement will be requested of employees once identified.

Finding 22 - Fond du Lac Tribal & Community College inappropriately provided health club memberships to faculty and staff.

Fond du Lac Tribal and Community College concurs with this finding. Membership has been cancelled.

Finding 23 - Four colleges did not always deposit auxiliary receipts daily, as required by statute and MnSCU policy.

Vermilion Community College deposit procedures for receipts will be modified to meet the $250 statutory daily deposit requirement, effective immediately.

Fond du Lac Tribal and Community College concurs with this finding. Further training with the bookstore staff will occur for daily deposits.

Mesabi Range Community and Technical College has instituted the proper procedure to promptly deposit bookstore receipts of the Eveleth Campus Bookstore. This was a timing issue as to when the Eveleth Business Office Employee counted the cash in the bookstore and when the business office and bookstore deposit was taken to the bank by another non business office related employee.

Finding 24 - Three colleges did not independently verify deposited receipts from auxiliary operations.

Rainy River Community College will write procedures and monitor controls for bookstore and business office receipts. The business manager will verify deposits and the CFO will review cash sessions with deposits.

Hibbing Community College will change its procedure for bookstore and food service deposits. The bookstore and food service departments will keep their own record of their daily deposit amount. The business office cashier will provide the bookstore and food service departments copies of their deposit slips for them to compare to their deposits submitted to the business office.

Minnesota West Community and Technical College agrees with these two findings. The business manager will meet with the campus CEO, business office personnel and cosmetology faculty to discuss procedures necessary to correct any receipt and deposit deficiencies.

Finding 25 - Fond du Lac Tribal & Community College did not effectively manage its book inventory.

Fond du Lac Tribal and Community College concurs with this finding. Procedures have been written for outreach sites and the inventory will be “shopped” to vendors or disposed of.