



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota State Academies
Internal Control and Compliance Audit
July 1, 2004, through June 30, 2007

November 26, 2008

Report 08-31

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

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 26, 2008

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This report contains the results of our internal control and compliance audit of the Minnesota State Academies (academies) for the period July 1, 2004, through June 30, 2007.

We discussed the results of the audit with the academies' staff at an exit conference on November 13, 2008. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager); Susan Kachelmeyer, CPA, CISA (Auditor-in-Charge); assisted by auditors Zach Yzermans, CPA; Jamie Majerus; and Kayla Peterson, CPA. Our fieldwork ended on July 8, 2008.

We received the full cooperation of the academies 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

Table of Contents

	<u>Page</u>
Report Summary	1
Agency Overview	3
Objectives, Scope, and Methodology	4
Conclusions.....	5
Findings and Recommendations	7
1. The academies did not adequately fulfill management responsibilities to control financial activities and ensure compliance with state legal requirements	7
2. Prior Finding Partially Resolved: The academies did not properly monitor grant revenue.....	8
3. The academies did not accurately bill independent school districts for services provided to students	9
4. Prior Finding Not Resolved: The academies did not properly manage outstanding receivables.....	11
5. The academies did not adequately control approximately \$1 million of receipts.....	11
6. The academies did not review payroll reports or properly calculate some payroll transactions to ensure that it accurately paid its employees.....	13
7. The academies did not adequately restrict access to the state's payroll and personnel system.....	14
8. The academies did not accurately record at least \$74,000 in expenditure transactions in the state's accounting system	15
9. The academies did not comply with applicable legal requirements for professional/technical services contracts	16

	<u>Page</u>
10. The academies did not always comply with applicable employee expense reimbursement requirements.....	17
11. The academies did not control the use of state vehicles	19
12. The academies did not monitor personal use of some state-owned personal electronic communication devices, as required by state policy and federal Internal Revenue Service regulations	20
13. The academies did not ensure that staff complied with statutes that prohibit travel-related benefits.....	21
14. The academies did not always obtain proper authorization for withdrawals from student accounts	21
15. The academies inappropriately exposed some employees' private data by recording that data in public fields in the state's accounting system.....	22
16. The academies did not charge prospective employees a fee for criminal background checks, as required by state statutes.....	22
Agency Response	23

Report Summary

Conclusion

The Minnesota State Academies' internal controls were not adequate for payroll, receipts, and administrative expenditures. As a result, the academies were not able to ensure assets were safeguarded, employees and vendors were accurately paid in accordance with management's authorizations, reliable financial information was produced, and activities complied with finance-related legal requirements.

For the items tested, the academies did not comply with finance-related legal requirements applicable to its financial activities.

Key Findings

- The academies did not adequately fulfill financial management responsibilities to control certain activities and ensure compliance with state and agency policies. ([Finding 1, page 7](#))
- The academies did not properly monitor grant revenue. (Finding 2, page 8)
- The academies did not accurately bill independent school districts for services provided to students. ([Finding 3, page 9](#))
- The academies did not adequately control approximately \$1 million of receipts. ([Finding 5, page 11](#))
- The academies did not review payroll reports or properly calculate some payroll transactions to ensure that it accurately paid its employees. ([Finding 6, page 13](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Compliance

Period Audited

Fiscal Years 2005, 2006, and 2007

Programs Audited

- | | |
|--|----------------------------|
| • Payroll and Related Expenditures | • Selected Receipts |
| • Selected Administrative Expenditures | • Student Account Activity |
| • Bank Account and Imprest Cash Activity | • Grant Revenue Activity |

Background

The Minnesota State Academies are public schools that provide and support education and services to students from birth to age 21 who are deaf, hard of hearing, blind, or visually impaired, including those with multiple disabilities. The academies (the Minnesota State Academy for the Deaf and the Minnesota State Academy for the Blind) are located in Faribault, Minnesota.

Minnesota State Academies

Agency Overview

The Minnesota State Academies (academies) are statewide public schools that provide education and related services to students from birth to age 21 who are deaf, hard of hearing, blind, or visually impaired, including those with multiple disabilities. The academies have provided educational services to deaf and blind students for more than 140 years. The academies educate students or support other public schools to educate students to develop social skills, leadership skills, and specialized skills, such as sign language and Braille. During the school year, about 190 students attend the academies.

The academies' governing board consists of seven members and two ex-officio members appointed by the Governor with the advice and consent of the Senate. At least one member of the board must represent the blind and the deaf communities. Linda Mitchell is the academies superintendent; she was appointed by the board of directors in 1998 for the deaf school and in 2004 was appointed for both the blind and the deaf schools.

For fiscal years 2005 through 2007, the academies received appropriations of about \$10.8 million per year. The academies also generated revenue from grants, donations, seminars, and student fees. Payroll is the largest expenditure. Table 1 summarizes the academies' receipts and expenditures for fiscal years 2005, 2006, and 2007.

Table 1
Revenues and Expenditures¹
Fiscal Years 2005-2007

<u>Revenues</u>	Fiscal Years²		
	2005	2006	2007
Grants ³	\$ 3,009,687	\$ 2,858,974	\$ 2,192,762
Donations ⁴	458,288	8,659	3,567
Other Revenue	235,182	357,183	337,410
Interest Earnings	14,615	31,716	39,633
Total	<u>\$ 3,717,772</u>	<u>\$ 3,256,532</u>	<u>\$ 2,573,372</u>
 <u>Expenditures</u>			
Payroll/Personnel	\$10,992,559	\$11,254,891	\$11,577,405
Professional/Technical Contracts	858,988	645,276	407,503
Lease, Utility, Maintenance	670,140	643,866	609,187
Supplies/Equipment	472,673	428,455	572,455
Other Administrative Costs	219,743	226,449	275,167
Travel/Employee Development	118,094	135,292	139,447
Total	<u>\$13,332,197</u>	<u>\$13,334,229</u>	<u>\$13,581,164</u>

¹The table does not include transactions related to employees' deferred compensation contributions. The academies transmit amounts deducted from employees' paychecks to the third party administrator. Although the academies record these transactions on the state's accounting system, they are not the academies' revenues or expenditures. The table also does not include student deposits and disbursements.

²The state's fiscal year is July 1 through June 30.

³Starting in fiscal year 2007, the academies received certain education aids directly from the Department of Education rather than as grants through individual school districts.

⁴The academies received a significant donation from an estate in fiscal year 2005.

Source: Minnesota Accounting and Procurement System.

Objectives, Scope, and Methodology

Our audit of the Minnesota State Academies' material receipts and expenditures focused on the following audit objectives for the period July 1, 2004, to June 30, 2007:

- Were the academies' internal controls adequate to ensure that receipts and other assets were safeguarded, employees and vendors were accurately paid in accordance with management's authorizations, reliable financial information was produced, and activities were in compliance with finance-related legal requirements?
- For the items tested, did the academies comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

- Did the academies resolve its 13 prior audit recommendations?¹

To answer these questions, we interviewed the academies' staff to gain an understanding of the controls related to 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 controls were effective, and the transactions complied with laws, regulations, policies, and grant and contract provisions.

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.² We used state laws, regulations, and contracts, as well as policies and procedures established by the departments of Finance and Administration and the academies' internal policies and procedures as evaluation criteria over compliance.

Conclusions

The Minnesota State Academies' internal controls were not adequate for payroll, receipts, and administrative expenditures. As a result, the academies were not able to ensure assets were safeguarded, employees and vendors were accurately paid in accordance with management's authorizations, reliable financial information was produced, and activities complied with finance-related legal requirements.

For the items tested, the academies did not comply with finance-related legal requirements applicable to its financial activities.

¹ Office of the Legislative Auditor, Financial Audit Division [Report 05-56](#), *Minnesota State Academies*, issued December 22, 2005.

² 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 academies resolved 11 of the 13 prior findings related to payroll, purchasing, inventory, revenue grants, and certain student activity related to allowances and athletic association funds. However, the academies failed to resolve two findings related to managing its revenue grants, and one finding related to foundation activity. The academies resolved specific recommendations but did not grasp the overall concepts of internal controls and apply those concepts to other aspects of their operations. As a result, despite having resolved many prior audit findings, the academies did not make significant improvements in overall financial management.

The following *Findings and Recommendations* further explain the exceptions noted above.

Findings and Recommendations

The academies did not adequately fulfill management responsibilities to control financial activities and ensure compliance with state legal requirements.

Finding 1

The academies had significant internal control weaknesses, did not sufficiently document all transactions and had instances of noncompliance with state finance-related legal requirements. As explained in findings 2 through 16, and recapped below, the academies lacked a sound internal control structure. Collectively, these weaknesses showed an overall lack of proper administrative oversight.

- The academies did not properly monitor, bill, or collect grant revenues from independent school districts. ([Findings 2, 3, and 4](#))
 - The academies did not safeguard receipts, segregate key financial duties, retain documentation, or reconcile the receipts collected to supporting documentation or the state's accounting system. ([Findings 5 and 14](#))
 - The academies did not review payroll reports or properly calculate some payroll transactions to ensure that it accurately paid employees or correctly reimbursed them for business-related expenses. ([Findings 6 and 10](#))
 - The academies did not adequately restrict access to the state's payroll and personnel system. ([Finding 7](#))
 - The academies did not always record transactions correctly in the state's accounting systems. ([Finding 8](#))
 - The academies did not comply with applicable legal requirements for professional/technical services contracts. ([Finding 9](#))
 - The academies did not adequately monitor personal use of leased vehicles, state-owned electronic communication devices, and employee travel-related benefits. ([Findings 11, 12, and 13](#))
 - The academies inappropriately exposed some employees' private data by recording that data in public fields in the state's accounting system. ([Finding 15](#))
-

- The academies did not charge prospective employees a fee for criminal background checks, as required by state statutes. ([Finding 16](#))

Recommendation

- *The academies need to review financial operations and implement controls to ensure transactions are accurate, properly approved, documented, and in compliance with state and agency policies.*

Finding 2

Prior Finding Partially Resolved: The academies did not properly monitor grant revenue.

The academies did not adequately monitor grant revenue received from the Department of Education. The academies earned grant revenue by providing instructional services to students who reside in various independent school districts in Minnesota and surrounding states. The school districts pay for their students to attend the academies, including general education, compensatory education, and management aide grants. General education funds covered tuition costs;³ compensatory grants offset assistance for students who received free or reduced school lunches;⁴ and management aide grants provided reimbursement to the academies for personnel who assisted students.⁵

Before fiscal year 2007, the academies billed the school districts for their share of certain educational costs related to students who attended one of the academies' schools. In fiscal year 2007, the Department of Education assumed most of the financial responsibility for billing, collecting, and distributing the funds on behalf of the academies.⁶

The academies did not adequately monitor grant receipts in the following ways:

- The academies did not separately account for some types of grant revenue received from the Department of Education. The academies commingled general education grants with management aide grant revenue. In fiscal year 2007, the academies commingled the management aide grants revenue received from the state with the management aides revenue received directly from the school districts. In addition, the academies

³ *Minnesota Statutes* 2008, Chapter 125A.65, subd. 3 and subd. 8; Chapter 125A.79; and Chapter 126C.10, subd. 2.

⁴ *Minnesota Statutes* 2008, Chapter 126C.10, subd. 3 and Chapter 126C.15.

⁵ *Minnesota Statutes* 2008, Chapter 125A.65, subd. 4 and Chapter 125A.76, subd. 2.

⁶ The academies continued to bill and collect from the applicable school districts the part of the management aide grants that related to after school programs.

erroneously coded a \$1,832 receipt from a school district for orientation and mobility services⁷ as management aide grant revenue. Each grant revenue type had legal use limitations; by not accounting for them separately, the academies could not ensure compliance with those limitations.

- The academies did not confirm that the Department of Education accurately billed and collected management aide grant revenue from school districts and paid that revenue to the academies. The academies provided student data to the Department of Education; the department used this data to bill school districts for services the academies provided. For fiscal year 2005 summer school, the academies inaccurately reported student data to the Department of Education, resulting in a \$37 over receipt of management aides. In addition, our reconciliation of management aide grant revenue for 2006 showed that the state overpaid the academies by about \$350.

Recommendations

- *The academies should account for each grant type separately to ensure that subsequent expenditures comply with grant use limitations.*
- *The academies should ensure they accurately report student data to the Department of Education and receive the correct amount of grant revenue.*

The academies did not accurately bill independent school districts for services provided to students.

Finding 3

The academies did not properly bill and collect payments from independent school districts for management aides and orientation and mobility services.⁷ The academies had the following weaknesses with the billing process for these services:

- In 2006, the Owatonna school district erroneously paid a \$24,120 bill the academies thought was sent to the Duluth school district. They credited the payment to the Owatonna's school district's account. The academies sent the Duluth school district a second invoice, which the Duluth school district paid. The academies' accounts receivable records did not show whether Owatonna's credit balance had been resolved.

⁷ Academies staff provide orientation and mobility services to students who stay in their home school districts. These services help the students better function in their school environments.

- The academies did not retain invoices to support services billed in two out of six receipts selected for testing. The academies could not find invoices for orientation and mobility services of \$18,449 and \$14,787, respectively. The academies received, deposited, and recorded the receipts. Without invoices to support the receipts, the academies could not show that the amount billed to school districts was accurate and that the academies had earned the revenue. Also, the academies should have retained copies of the invoices to resolve potential disputes that could arise later.
- For the four remaining tested receipts, the academies did not accurately bill the school districts for orientation and mobility services. No one at the academies verified that staff had accurately calculated amounts due. As a result, for the four invoices tested, the academies overbilled two school districts by \$2,436 and \$15, respectively, and underbilled two school districts by \$240 and \$22, respectively.
- For calendar year 2006, the academies billed mileage (related to orientation and mobility services) to the school districts at the wrong rate. The amounts overbilled totaled approximately \$352 for the three items tested, but the error affected all of 2006.

Recommendations

- *The academies should develop, implement, and maintain internal controls to ensure that independent school districts are invoiced for the correct amount.*
 - *The academies should determine whether the error with the Owatonna school district has been resolved. If the error is unresolved, the academies should work with the Owatonna school district to resolve the \$24,120 overpayment.*
 - *The academies should retain invoices to support amounts billed to independent school districts.*
 - *The academies should review all invoices related to orientation and mobility services, determine the total amount of erroneous billings, including errors related to mileage, and resolve discrepancies with the affected school districts.*
-

Prior Finding Not Resolved: The academies did not properly manage outstanding receivables.**Finding 4**

The academies did not properly manage amounts due from independent school districts. The academies have not collected approximately \$18,000 in management aides' services invoiced to independent school districts in fiscal years 2000, 2001, and 2007.⁸ Before fiscal year 2007, the state Department of Education directly funded 68 percent of the management aides' gross salaries. The academies then invoiced independent school districts for the remaining 32 percent of salaries and all fringe benefits.

The academies also have not collected about \$4,800 in compensatory education revenue that related to fiscal years 2001 and 2006.⁹ Prior to fiscal year 2007, the state Department of Education calculated the amount due from districts for compensatory education revenue grants and notified the academies so they could invoice each independent school district.

The academies had not determined if the outstanding amounts represented valid receivables and whether to pursue collection or write them off.

Recommendation

- *The academies should work with the Minnesota Department of Education to collect all valid receivables from independent school districts and write-off receivables deemed uncollectible.*

The academies did not adequately control approximately \$1 million of receipts.**Finding 5**

The academies received approximately \$1 million from seminars, services provided to other school districts, student deposits, and school-related fees. For these receipts, the business office recorded the receipts in an electronic log, deposited the receipts in the local bank, and posted the transactions on the state's accounting system. The academies also tracked the student deposits in a separate database. The academies had the following weaknesses in processing these receipts:

- The academies' staff accepted money from students or parents for miscellaneous activities, such as sporting events, yearbooks, and proms. Although the academies generally collected most student fees in the

⁸Management aides revenue is a reimbursement from independent school districts for salaries/fringe benefits of academies' employees who provide assistance to their students.

⁹Compensatory education revenue is for students who receive free or reduced school lunches.

business office on the first day of each semester and provided parents or students with a receipt, this was not the practice during the rest of the semester. Allowing staff outside of the business office to collect money increased the risk of loss or theft.

- The academies gave six employees change access to the electronic receipt log, including three employees who reconciled or verified bank statements and two who reconciled the student database to the state's accounting system. Someone with change access, who is reviewing or reconciling the bank deposits or making entries into state or agency accounting systems, could change the electronic log to make items balance, increasing the risk of fraud.
- The academies did not verify the accuracy of the transactions posted to the student database. One employee entered all of the transactions and no one reviewed their work to ensure that they entered the transactions correctly. To ensure accuracy of the accounting records and to provide an adequate separation of duties, all data input needs to involve at least two people – one to complete the document and another to review and approve the document for processing.
- The academies electronic receipt log did not include all receipts. The academies' staff had not recorded 5 of 25 receipts tested in the receipt log.
- The academies did not reconcile the electronic receipt log to the bank deposit and to the amounts posted to the accounting records. The academies kept a log of receipts it collected from students and recorded the activity in a database to track student deposits. However, the academies did not perform reconciliations between the receipt log to the bank deposit, the student receipt book to the student database, or the student database to the state's accounting system, as applicable.
- The academies did not deposit receipts promptly, as required by statutes. Statutes require state agencies to deposit receipts over \$250 daily.¹⁰ State policy reinforces this provision.¹¹ The academies deposited 6 of 36 tested deposits late. The academies deposited three of the late deposits, ranging from \$550 to \$9,941, one or two days late; the academies deposited the other three late deposits, ranging from \$250 to \$2,000, 6 to 52 days late. The delay in depositing these receipts increased the risk of loss or theft.

Without periodic reconciliations and adequate separation of duties, the academies could not ensure that all receipts were deposited in the bank in compliance with statutory provisions, and the transactions were properly recorded.

¹⁰ *Minnesota Statutes* 2008, Chapter 16A.275.

¹¹ Department of Finance Policy 0602-03.

Recommendations

- *The academies should collect all student receipts in the business office and prohibit non business office staff from accepting receipts from students or parents. It should develop an adequate separation of duties over its receipt process.*
- *Someone independent of the collection process should verify that the transactions were accurately entered into the students' database and the state's accounting system.*
- *The academies should record all receipts in the receipt log.*
- *Someone independent of the receipting process should reconcile the receipt log to the state's accounting system and to the student activity database.*
- *The academies should deposit receipts exceeding \$250 daily, as required by statute.*

The academies did not review payroll reports or properly calculate some payroll transactions to ensure that it accurately paid its employees.

Finding 6

The academies did not review a key payroll report to support the integrity of reported payroll hours. The academies also made some errors in severance, retroactive, and holiday pay. The academies had the following weaknesses in the payroll process:

- The academies did not review the *Self Service Time Entry Audit Report* each pay period. This report identifies an employee's hours submitted for payment that either were not submitted by the employee or were not authorized by the employee's direct supervisor. This report is generated by the state's electronic time reporting system, and state policy requires agencies to complete a comprehensive review or, if not possible, review a representative sample of the payroll activity each pay period and obtain explanations for exceptions noted.¹² The state's electronic time reporting system considers time reported by employees and authorized by direct supervisors to have more validity than time reported and authorized by others. Without reviewing the payroll report, the academies cannot ensure the integrity of reported payroll hours.

¹² Department of Finance Policy PAY0017.

- The academies underpaid one employee's severance by \$7,800, because it used the wrong bargaining unit criteria.¹³
- Three employees inappropriately used extra holidays during 2006 and 2007, because the academies did not detect miscoded hours.
- The academies erroneously calculated three retroactive payments. The academies overpaid one employee \$266 and underpaid two employees approximately \$34 and \$12, respectively. The academies did not have a review process in place to detect these mistakes.

Recommendations

- *The academies should review the Self Service Time Entry Audit Report each pay period to verify the accuracy of hours reported on the state's payroll system.*
- *The academies should correct errors made in employee compensation, including the severance error, the holiday pay error, and the retroactive pay error.*
- *The academies should verify the accuracy of other retroactive and severance payments and resolve any errors detected.*
- *The academies should implement procedures, such as supervisory review, to ensure the accuracy of payroll calculations.*

Finding 7

The academies did not adequately restrict access to the state's payroll and personnel system.

As of May 2008, the academies had one employee with incompatible security access to the state's payroll and personnel system. The academies used the state's payroll and personnel system to process its payroll transactions. The employee could update and correct payroll transactions, adjust retroactive payments, update business expense transactions, and update and correct direct deposit entries. This incompatible access provided an opportunity for fraud because it would allow the employee to initiate a payroll transaction and deposit the payment into their own bank account. The state requires that agencies limit system access to only those duties essential to a position's responsibilities.¹⁴ If it is not feasible to segregate duties, the Department of Finance's policy requires that state agencies develop a written plan identifying controls designed to mitigate the risk.¹⁵

¹³ Labor agreement between the State of Minnesota and the State Residential Schools Education Association for July 1, 2007, to June 30, 2009.

¹⁴ Department of Finance Policy HR045.

¹⁵ Department of Finance Policy 1101-07.

Recommendations

- *The academies should eliminate the incompatible employee access to the computer systems or develop, document, and monitor mitigating controls that provide independent review of the activity processed by that employee.*
- *The academies should periodically review employees' security profiles to ensure that access is limited to the profiles necessary for assigned job responsibilities.*

The academies did not accurately record at least \$74,000 in expenditure transactions in the state's accounting system.**Finding 8**

The academies miscoded 19 of the 58 transactions tested, resulting in inaccurate recording of transactions totaling about \$74,000 in the state's accounting system. The academies did not correctly identify the type of goods or services purchased, did not properly record the date the state incurred a liability, and did not use accurate acquisition costs on the state's fixed asset inventory system.

State policy requires agencies to use accurate object codes to facilitate budget integrity and accurate financial reporting.¹⁶ Supervisory review of transactions prior to payment and subsequent review of recorded transaction details and summaries should have prevented or detected significant transaction miscoding. Testing of a sample of the academies' expenditures found the following miscodings:

- Three monthly cell phone bills totaling about \$1,000 miscoded as general supplies.
- Multiple payments totaling about \$8,000 for conferences, lodging, washers, dryers, airline tickets, workers' compensation, student events, and other miscellaneous purchases miscoded as fixed charges or supplies.
- Diesel fuel totaling \$15,700 miscoded as supplies.
- A new employee's moving expense of \$1,000 miscoded as other purchased services.
- Three new and used vehicles for \$44,773 miscoded as equipment.
- Photocopier rental payments of \$357 miscoded as an equipment purchase.
- Two transactions for sanding and refinishing hardwood floors, totaling approximately \$2,200 miscoded as land improvements.
- Two nights of lodging totaling \$444 miscoded as meals with lodging.
- Taxable meals of \$82 miscoded to meals with overnight lodging, which is nontaxable.
- Out-of-state meals for \$52 miscoded as in-state meals.

¹⁶ Department of Finance Policy 0207-01.

- Nontaxable meals of approximately \$19 miscoded as taxable reimbursements.

Also, the academies did not record the correct date the state incurred a liability for 2 out of 28 sample items tested. For these transactions, the record date was inconsistent with supporting documentation, which showed the liability to the state as 111 days and 20 days earlier than the liability recorded in the accounting system. The Department of Finance requires agencies to record in the state's accounting system the date when goods or services are received as a way to ensure accurate recognition of the transaction for financial reporting.¹⁷

In addition, 1 out of 13 fixed assets tested had inaccurate acquisition costs posted on the state's fixed asset inventory system. A purchase of lawn equipment was understated by \$601.

Recommendations

- *The academies should adequately review transactions before processing payments and review subsequent reports of processed payments to ensure that transactions are accurately recorded.*
- *The academies should periodically review the state's fixed asset tracking system to ensure accurate fixed asset records.*

Finding 9

The academies did not comply with applicable legal requirements for professional/technical services contracts.

The academies did not properly initiate, execute, monitor, or pay its professional/technical services contracts. Contracts for professional/technical services generally are for services that are intellectual in nature and include consultation, analysis, evaluation, prediction, planning, programming, or recommendation and result in the production of a report or completion of a task. The majority of the academies' professional/technical contracts were with local school districts to provide mainstream education and with student health care providers. The academies did not follow the policies and procedures required by the Department of Administration.¹⁸ The academies had the following weaknesses in nine professional/technical services contracts tested, ranging from about \$5,000 to \$498,000:

- The academies allowed work to start before five of the contracts were fully executed.
- The academies did not encumber the entire amount of five contracts.

¹⁷Department of Finance Policy 0901-01.

¹⁸Department of Administration's Professional/Technical Services Contract Manual.

- The academies did not complete violation letters required by statutes when allowing work to begin before executing a contract or not fully encumbering funds for the contract.
- The academies did not determine whether the state or the federal government had debarred or suspended vendors selected for any of the contracts.
- The academies did not complete the required performance evaluation reports for the three contracts that exceeded \$50,000.¹⁹
- The academies exceeded the \$5,000 annual plan contract limit by \$350 for one contract without obtaining the Department of Administration's approval.

Recommendation

- *The academies should comply with all requirements established by the Department of Administration for professional/technical service contracts, including:*
 - *Prohibiting work from starting until after a contract is executed.*
 - *Encumbering the full contract amount.*
 - *Completing and filing statutory violation letters, if needed.*
 - *Ensuring vendors are not suspended or debarred.*
 - *Completing performance evaluation reports for contracts exceeding \$50,000.*
 - *Limiting annual plan contracts to \$5,000.*

The academies did not always comply with applicable employee expense reimbursement requirements.

Finding 10

The academies did not ensure that travel and other expense reimbursement claims were properly authorized, supported by documentation, approved for payment, or paid in accordance with collective bargaining units or other applicable agreements, rules, or regulations.²⁰ Our test of employee expense reimbursements included state employees, board members, and seminar attendees. The academies had the following weaknesses in the tested transactions:

- The academies processed one employee's expense claim for lodging costs of \$272 through the state's accounting system, rather than through the payroll system as required. The academies did not ensure that the claim complied with state travel limitations.

¹⁹ *Minnesota Statutes* 2008, Chapter 16C.08, subd. 4 (c).

²⁰ Department of Finance Policy PAY0021.

- The academies overpaid two employees and three board members about \$80 for mileage reimbursements. They claimed more miles than they were entitled to receive, and the supervisors or the academies' accounting personnel did not detect the errors.
- The academies overpaid two employees a total of \$24 for meals. The first employee did not document the time of day they traveled or the location they traveled to making it impossible to determine meal eligibility. The second employee claimed more than the maximum allowed by the state's Managerial Plan.
- In four instances, the academies paid for out-of-state travel without sufficient advance authorization. In addition, two other employees who traveled for training claimed meals without an agenda or itinerary to support their requests. The state's expense reimbursement policy requires employees to obtain pre-authorization for out-of-state travel and, for training, a copy of the conference agenda attached to the out-of-state travel authorization.²¹
- The academies did not tax one employee's expense reimbursement of \$24.50 that the employee submitted after the 60-day Internal Revenue Service limit.²²

The academies' business office is responsible for the proper recording of transactions in the state's accounting systems. Controls need to be in place to ensure that data input accurately reflects the nature of the expenditure.

Recommendations

- *The academies should pay travel expenses and other claims in accordance with collective bargaining units or other applicable agreements, rules, and regulations.*
- *The academies should seek repayment for identified travel reimbursement overpayments.*
- *The academies should examine other expense reimbursement claims to determine if other overpayments occurred and, if so, pursue recovery.*
- *The academies should determine and correct the federal and state tax consequences it created by not adequately monitoring reimbursements.*

²¹ Department of Finance Policy PAY0020.

²² Department of Finance Policy PAY0021.

The academies did not control the use of state vehicles.**Finding 11**

The academies did not adequately document and control employee use of state vehicles. The academies spent about \$200,000 during the audit period to lease 11 vehicles from the state's Department of Administration. It used the vehicles to transport staff and students between the two campuses or off campus for medical visits, business meetings, and student extra curricular activities. The academies maintained detailed logs for each vehicle showing who used the vehicle, when and where they went, and beginning and ending mileage readings. The academies had the following problems with leased vehicles:

- The academies did not retain mileage log records prior to October 2007 for its state vehicles. The academies sent the logs to the Department of Administration's Fleet Management Division, but did not retain copies of them. State policy requires adequate retention of source documents to evidence the nature, amount, and terms of a transaction.²³ Without the mileage logs, the academies could not show that vehicles were used only for official school business.
- The academies allowed one employee to use a state vehicle for commuting to and from work because of her work responsibilities. However, the academies did not require this employee to keep a detailed mileage log. As a result, the academies could not be assured that the employee had not used the vehicle for personal use. State policy prohibits the personal use of state vehicles except where specifically allowed by state statutes.²⁴

Recommendations

- *The academies should retain copies of mileage logs to document the proper use of the vehicles.*
- *The academies should monitor usage of the vehicles to ensure that they are only used for school business.*

²³ Department of Finance Policy 0102-01.

²⁴ Department of Finance Policy PAY0021 and *Minnesota Statutes* 2008, Chapter 16B.55.

Finding 12

The academies did not monitor personal use of some of its state-owned personal electronic communication devices, as required by state policy and federal Internal Revenue Service regulations.

As of May 2008, the academies had state-owned personal electronic communication devices, including 14 cell phones and 20 other devices. The academies either assigned these devices to specific employees or assigned them to a location, such as in the dorm or for the bus. The academies did not always require employees to review monthly statements to identify and reimburse for any personal use.

State policy requires employees who receive state-issued personal electronic communication devices to review monthly statements and identify all personal calls, including essential calls and nonessential calls, and submit the information for supervisory review and approval each month.²⁵ Employees must reimburse the state for all nonessential personal calls within 30 days. The intent of the policy is to ensure compliance with federal Internal Revenue Service (IRS) regulations for employers who issue cell phones to employees. According to current IRS rules, unless employers enforce a policy that employees track personal use and require employee reimbursement of the personal calls, including a prorated share of the monthly service fee, employers must report the total cell phone expense as income to the employee.

By not requiring employees to review monthly statements for personal calls, in addition to not complying with state and IRS regulations, the academies may pay for unallowable personal use. In addition, by not tracking personal calls, the academies may not be able to determine whether the extent of business use justifies the cost of the communication devices.

Recommendation

- *The academies should monitor employees' personal use of all state-owned personal electronic communication devices and require reimbursement for nonessential personal calls, including a pro-rated share of the monthly service plan.*

²⁵Department of Administration Statewide Policy: Appropriate Use of Electronic Communication and Technology. The policy defines essential calls as being of minimal duration and frequency, urgent in nature, and unable to be made at another time from a different phone; all other personal calls are considered nonessential.

The academies did not ensure that staff complied with statutes that prohibit travel-related benefits.**Finding 13**

One employee did not comply with legal provisions that prohibit employees from deriving certain benefits from state employment. The employee did not report airline miles obtained while traveling on a state business trip. *Minnesota Statutes* require that whenever public funds are used to pay for airline travel by a public employee, any credits or other benefits issued by any airline must accrue to the benefit of the public body providing the funding.²⁶ The statute also requires that employees report to the “public body” paying for the travel within 90 days of receipt of the benefit. The employee was unaware of the statutory requirements. In addition, the same employee accrued hotel rewards while conducting state business. *Minnesota Statutes* prohibit state employees from receiving any compensation, reward, or future benefit from any source except from the state for any activity related to the duties of the employee while on state business.²⁷

Recommendation

- *The academies should inform employees about travel-related benefits and monitor employees’ business expense reimbursements to ensure compliance with statutes that prohibit personal benefit from state paid travel expenditures.*

The academies did not always obtain proper authorization for withdrawals from student accounts.**Finding 14**

The academies did not receive student approval for withdrawal of funds under \$20 for events, fieldtrips, and special classes or a second approval (i.e., the student’s parent or dorm director) on withdrawals over \$20. For 10 out of 15 sample items tested, the academies did not have proper student authorization to support the transaction. The academies’ policy also allowed for withdrawals over \$20, but only under special circumstances and with the approval of either the student’s parent or dorm director. Without the proper documentation to support these withdrawals of funds from student accounts, there is no assurance that the students authorized the withdrawal of funds.

Recommendation

- *The academies should ensure that all student withdrawal forms are signed, as required in the academies’ policies.*

²⁶ *Minnesota Statutes* 2008, Chapter 15.435.

²⁷ *Minnesota Statutes* 2008, Chapter 43A.38, subd. 2.

Finding 15

The academies inappropriately exposed some employees' private data by recording that data in public fields in the state's accounting system.

The academies did not protect employees' private data when entering transactions for the tax sheltered annuity program. As of July 2008, about 50 employees participated in the program. For items tested, the academies processed the deductions in the state's payroll system and vendor payments in the accounting and procurement system. The academies included some private data on the employees when entering the transactions into public fields in the accounting systems. State statutes require that agencies establish appropriate safeguards for data on individuals.²⁸

Recommendation

- *The academies should protect all not public data on individuals.*

Finding 16

The academies did not charge prospective employees a fee for criminal background checks, as required by state statutes.

The academies did not comply with the statutes regarding reimbursement for background checks for prospective employees.²⁹ The statutes require that applicants for a position at a school must have a criminal background check and that the applicants must pay the costs of the background checks. Although not aware of either statute, the academies did perform background checks on prospective employees; however, the academies did not charge prospective employees for the cost of background checks.

Recommendation

- *The academies should charge prospective employees for the cost of background checks, as required by state statutes.*

²⁸ *Minnesota Statutes* 2008, Chapter 13.05, subd. 5.

²⁹ *Minnesota Statutes* 2008, Chapter 123B.03, subd. 1.



Minnesota State Academies

P.O. Box 308, Faribault, MN 55021-0308 ~ 507.332.5400 V/TTY ~ 1.800.657.3996 V/TTY
www.msa.state.mn.us

November 20, 2008

James Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
140 Centennial Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Attached you will find the response for the audit that was recently completed on the Minnesota State Academies for the period July 1, 2004 through June 30, 2007.

Should you have any questions, feel free to contact me at (507) 332-5402.

Sincerely,

Linda Mitchell
Minnesota State Academies Administrator



Minnesota State Academies

P.O. Box 308 Faribault, MN 55021-0308 ~ 507.332.5400 V/TTY ~ 1.800.657.3996 V/TTY
www.msastate.mn.us

Minnesota State Academies Legislative Audit Report Corrective Action Plan Form

Finding No.	Recommendation	Brief Explanation of Corrective Action Plan	Estimated Completion Date	Person Responsible
1	The academies need to review financial operations and implement controls to ensure transactions are accurate, properly approved, documented, and in compliance with state and agency policies	Finance Director will review all policies and procedures related to the audit findings and will work with MSA Administrator to ensure that facility is in compliance with state legal requirements. Finance Director will also ensure that administrative oversight is adhered to according to GAAP and MMB policies and procedures.	On-going	Michael Hopwood/ Linda Mitchell
2	The academies should ensure they accurately report student data to the Department of Education and receive the correct amount of grant revenue.	Finance Director is working with the Department of Education to gain additional training in understanding/comprehending MDE financial reports.	February 2009	Michael Hopwood
	The academies should account for each grant type separately to ensure that subsequent expenditures comply with grant use limitations.	Finance Director has worked with MMB to set up new appropriations to separate accounts and has been working with MDE to ensure they deposit correct receipts to the appropriate appropriations.	December 31, 2008	Michael Hopwood
3	The academies should develop, implement and maintain internal controls to ensure that independent school districts are invoiced for the correct amount.	Finance Director will be auditing invoices prior to Accounts Receivable sending out to customers.	Completed	Michael Hopwood/ Erlene Fitzpatrick

Minnesota State Academies

2

Finding No.	Recommendation	Brief Explanation of Corrective Action Plan	Estimated Completion Date	Person Responsible
	The academies should determine whether the error with the Owatonna School district has been resolved. If the error is unresolved, the academies should work with the Owatonna school district to resolve the \$24,120 overpayment.	Finance Director will be investigating the error to see if overpayment has in fact occurred. In the event it has, he will work with MDE and Owatonna school district to ensure that payment is credited back to Owatonna.	Will have invoices reviewed by December 31 and in the event payback needs to occur will have plan set up with MDE by end of February 2009	Michael Hopwood/ Erlene Fitzpatrick
3	The academies should retain invoices to support amounts billed to independent school districts.	Finance Director has requested that Accounts Receivable department maintain backup documentation attached to invoice and has ensured that all invoices are retained according to MMB retention schedules.	Completed	Michael Hopwood/ Erlene Fitzpatrick
	The academies should review all invoices related to orientation and mobility services, determine the total amount of erroneous billings, including errors related to mileage, and resolve discrepancies with affected school districts.	Finance Director and Fiscal Services Department will review all O&M invoices and work with affected school districts to ensure that discrepancies are resolved.	June 30, 2009	Michael Hopwood/ Fiscal Svs Staff
4	The academies should work with the Minnesota Department of Education to collect all valid receivables from independent school districts and write-off receivables deemed uncollectible.	Finance Director has worked with independent school districts and MDE and determined what receivables were valid and has collected them. Finance Director has worked with EBO to write off all receivables that are not valid and deemed uncollectible.	Completed	Michael Hopwood

Minnesota State Academies

3

5	<p>The academies should collect all student receipts in the business office and prohibit non business office staff from accepting receipts from students or parents. It should develop an adequate separation of duties over its receipt process.</p> <p>Someone independent of the collection process should verify that the transactions were accurately entered into the students' database and the state's accounting system.</p> <p>The academies should record all receipts in the receipt log.</p>	<p>Finance Director will work with Academies Administrator to install secure night deposit boxes for the students to make deposits after hours. The night boxes will only be accessible to fiscal services staff.</p>	<p>December 31, 2008</p>	<p>Michael Hopwood/ Linda Mitchell</p>
		<p>Finance Director will work with fiscal services staff not associated with the collection process on setting up a procedure whereby verification of the entries in the students' database occurs on a regular basis.</p>	<p>Will have process set up by December 31, 2008</p>	<p>Michael Hopwood/ Fiscal Svs Staff</p>
		<p>Finance Director will change the number of individuals allowed to enter into receipt log to 2 employees not associated with the depositing process and will ensure that all receipts are recorded in the receipt log the day of receipt.</p>	<p>December 31, 2008</p>	<p>Michael Hopwood</p>
	<p>Someone independent of the receipting process should reconcile the receipt log to the state's accounting system and to the student activity database.</p>	<p>Finance Director will ensure that staff independent of the receipting process, reconcile the receipt log to the state's accounting system and student activity database on a regular basis.</p>	<p>Will have process set up by December 31, 2008</p>	<p>Michael Hopwood/ Fiscal Svs Staff</p>
	<p>The academies should deposit receipts exceeding \$250 daily, as required by statute.</p>	<p>Finance Director has worked with staff to ensure that all receipts are deposited daily when they exceed \$250.</p>	<p>Completed</p>	<p>Michael Hopwood</p>
6	<p>The academies should correct errors made in employee compensation, including the severance error, the holiday pay error, and the retroactive pay error.</p>	<p>Finance Director has corrected some of these errors and will work on completing the rest, once the identities of all affected employees is received from OLA.</p>	<p>February 1, 2009</p>	<p>Michael Hopwood</p>

Minnesota State Academies

	The academies should verify the accuracy of other retroactive and severance payments and resolve any errors detected.	Finance Director will audit all retroactive and severance payments that occurred during audit timeframe and will resolve errors.	February 1, 2009	Michael Hopwood
	The academies should implement procedures, such as supervisory review, to ensure the accuracy of payroll calculations.	This is currently being implemented. Finance Director has instructed payroll coordinator that all calculations are to be done system calculated and not manually.	Completed	Michael Hopwood Kerry Vigesaa
7	The academies should eliminate the incompatible employee access to the computer systems or develop, document, and monitor mitigating controls that provide independent review of the activity processed by that employee.	After previous Finance Director retired, current Finance Director terminated his access.	Completed	Michael Hopwood
	The academies should periodically review employee's security profiles to ensure that access is limited to the profiles necessary for assigned job responsibilities.	MMB is currently sending out incompatibility reports for agencies to review throughout the fiscal year and Finance Director ensures that reports are reviewed and returned within the requested timelines.	Completed	Michael Hopwood
8	The academies should adequately review transactions before processing payments and review subsequent reports of processed payments to ensure that transactions are accurately recorded.	Finance Director has worked with the agency's purchasing agent and required that she double check MMD's commodity codes to ensure that they are in line with the object code listing. Finance Director is also working closely with the agency's payroll coordinator to ensure all payments are coded to the correct object codes. Finance Director is also auditing work of both individuals to ensure transactions are accurately recorded.	Completed	Michael Hopwood/ Patricia Rux, Kerry Vigesaa
	The academies should periodically review the state's fixed asset tracking system to ensure accurate fixed asset records.	Finance Director has begun to audit fixed asset records to ensure that the tracking system is accurate.	Completed	Michael Hopwood

Minnesota State Academies

5

9	<p>The academies should comply with all requirements established by the Department of Administration for professional/technical service contracts including:</p> <ul style="list-style-type: none"> • Prohibiting work from starting until a contract is executed. • Encumbering the full contract amount. • Completing the filing statutory violation letters, if needed. • Ensuring vendors are not suspended or debarred. • Completing performance evaluation reports for contracts exceeding \$50,000. • Limiting annual plan contracts to \$5,000. 	<p>Finance Director is currently enforcing all of these requirements that were established by the Department of Administration. However, we have one contract with the Faribault Public Schools for our mainstream contract that will always require us to do a 16C violation letter. Because of the special requirements of this contract, we have to begin prior to the execution of the contract. This information was shared with the OLA and they seem to understand the process. However, MSA will complete the 16C violation letter for this contract as required each year.</p>	Completed	Michael Hopwood/ Patricia Rux
10	<p>The academies should pay travel expenses and other claims in accordance with collective bargaining units or other applicable agreements, rules and regulations.</p>	<p>Finance Director is currently reviewing all employee business expense reports prior to payroll coordinator inputting information into SEMA4.</p>	Completed	Michael Hopwood/ Kerry Vigasaa
	<p>The academies should seek repayment for identified travel reimbursement overpayments.</p>	<p>Finance Director has corrected some of these errors and will complete the rest, once the identities of all affected employees are received from OLA.</p>	February 1, 2009	Michael Hopwood
	<p>The academies should examine other expense reimbursement claims to determine if other overpayments occurred and, if so, pursue recovery.</p>	<p>Finance Director will audit all other expense reimbursement claim payments that occurred during audit timeframe and will resolve errors.</p>	February 1, 2009	Michael Hopwood

Minnesota State Academies

6

	The academies should determine and correct the federal and state tax consequences it created by not adequately monitoring reimbursements.	Finance Director will work with OLA to obtain identities of individuals affected and work with MMB to correct the errors. Finance Director will ensure the payroll coordinator understands the correct policies and procedures and adheres to them.	February 1, 2009	Michael Hopwood/ Kerry Vigesaa
11	The academies should retain copies of mileage logs to document the proper use of vehicles.	Finance Director has worked with the agency's travel coordinator to ensure that copies are being retained. They are currently retaining copies.	Completed	Michael Hopwood/ Randy Dirks
	The academies should monitor usage of the vehicles to ensure that they are only used for school business.	Finance Director will work with the agency's travel coordinator to ensure that vehicle logs are placed in every state vehicle and are monitored on a monthly basis	December 31, 2008	Michael Hopwood/ Randy Dirks
12	The academies should monitor employees' personal use of all state-owned personal electronic communication devices and require reimbursement for nonessential personal calls, including a pro-rated share of the monthly service plan.	Finance Director is requiring that copies of employees telephone bills go to each individual for review and employees reimburse the state for any personal calls at a rate to be determined by the Finance Director and MSA Administrator. This will be incorporated into MSA procedure/policy.	December 31, 2008	Michael Hopwood Linda Mitchell
13	The academies should inform employees about travel related benefits and monitor employee's business expense reimbursement to ensure compliance with statutes that prohibit personal benefit from state paid travel expenditures.	Finance Director has required that ALL airline tickets be purchased directly from MSA, thereby eliminating any benefits gained for individual employees.	Completed	Michael Hopwood/ Patricia Rux
14	The academies should ensure that all student withdrawal forms are signed, as required in the academies policies	Student withdrawal forms are verified by Finance Director prior to reimbursement of petty cash.	Completed	Michael Hopwood/ Kerry Vigesaa

Minnesota State Academies

7

15	The academies should protect all not public data on individuals.	Finance Director has implemented procedures whereas the employees social security number is not listed on payments. Finance Director will work with MMB on cleansing the MAPS system of old MAPS payments to take out social security numbers.	February 1, 2009-Cleansing of system.	Michael Hopwood/ Erlene Fitzpatrick
16	The academies should charge prospective employees for the cost of background checks, as required by state statutes.	Finance Director has worked with academies HR Director to ensure all background checks are charged to the employee.	Completed	Michael Hopwood/ Martina Hagen