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FINANCIAL AUDIT DIVISION REPORT

Minnesota State Colleges and Universities

Internal Control and Compliance Audit Fiscal Years 2006 through 2008

September 8, 2009

Report 09-30

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

September 8, 2009

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Minnesota State Colleges and Universities

Board of Trustees
Minnesota State Colleges and Universities

This report presents the results of our internal control and compliance audits of eight colleges in the Minnesota State Colleges and Universities (MnSCU) system. Each of the college audits included reviews of security access to computerized accounting applications, tuition and fee revenues, banking, payroll, operating and administrative expenses, equipment and capital projects, and bookstore revenues for fiscal years 2006, 2007, and 2008.

We discussed the results of our audit with MnSCU management on August 19, 2009. The audit was conducted by Brad White, CPA, CISA, CFE and David Poliseno, CPA, CISA, CFE (Audit Managers), Scott Tjomsland, CPA, CISA, Tracy Gebhard, CPA, Carl Otto, CPA, Tim Rekow, CPA, and David Westlund, CPA (Auditors-in-Charge), and assisted by auditors Tyler Billig, Kayla Borneman, Thom Derus, Eric Krenz, Bridgette Leonard, Chau Nguyen, Kathy Rootham, Adam Spooner, Lindsay Tietze, and Emily Wiant.

This report is intended for the information and use of the Legislative Audit Commission and the management and board of the Minnesota State Colleges and Universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 8, 2009.

We received the full cooperation of the MnSCU 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 eight colleges in the Minnesota State Colleges and Universities (MnSCU) system included in our scope generally had adequate internal controls over their major financial activities, such as tuition payments, employee salaries, and operating expenses. These controls generally ensured that the colleges 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 colleges complied with financial-related MnSCU policies and legal requirements.

However, the colleges had some internal control weaknesses and noncompliance in certain areas that have a high-risk for errors, including security access to financial systems, employee leave benefits, and management of equipment and college-issued credit cards. In addition, the MnSCU Office of the Chancellor is working towards resolution of prior audit findings concerning security to financial systems, bids for banking services, and retention of sensitive student credit card payment information.

Key Significant and Systemic Findings

- Colleges inappropriately gave some employees computer system access to perform certain incompatible financial functions without a written plan to mitigate the risk. ([Finding 1, page 9](#))
- Colleges had errors in accounting for leave benefits. ([Finding 2, page 11](#))
- Colleges did not have controls to properly manage equipment and credit cards. ([Findings 3 and 4, pages 13 – 15](#))
- One college did not document decisions supporting some faculty members' compensation. ([Finding 5, page 17](#))
- One college inappropriately provided an early retirement incentive to a faculty member, and another college relied on 'past practices' to inappropriately justify excessive severance payments to some faculty members. ([Findings 6 and 7, pages 18 and 19](#))

Other Findings

- The colleges we reviewed had numerous control weaknesses and noncompliance with requirements for employee compensation, vendor procurements and payments, and employee expense reimbursements. ([Findings 8 – 20, pages 21 – 34](#))

Audit Objectives and Scope

We examined internal controls and compliance at eight MnSCU colleges: Alexandria, Anoka, and Dakota County Technical Colleges; Lake Superior, Saint Paul, and South Central Colleges; North Hennepin Community College; and Northland Community and Technical College. Our review examined fiscal years 2006, 2007, and 2008, over the following areas:

- | | |
|-------------------------------------|-------------------------------------|
| • Financial systems security access | • Personnel and payroll expenses |
| • Tuition and fee revenues | • Operating expenses |
| • Bookstore revenues | • Equipment purchases and inventory |
| • Local bank accounts | • Capital projects |
-

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities (MnSCU) system contracted with the Office of the Legislative Auditor to provide internal control and compliance audit coverage at the following eight MnSCU colleges:¹

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

Agency Overview

The MnSCU system is comprised of 32 state universities, community colleges, technical colleges, and the Office of the Chancellor. *Minnesota Statutes* 2008, Chapter 136F, assigns to the MnSCU Board of Trustees the powers necessary to govern the state colleges and universities, including authority to appoint a chancellor for the system. The board appointed James H. McCormick as MnSCU Chancellor in July 2001.

The Office of the Chancellor is responsible for providing overall management and direction for the MnSCU system. The office reviews and coordinates educational programs, negotiates labor contracts, and administers system-wide financial management operations. It provides support to colleges and universities for 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 colleges use the MnSCU accounting system to generate payments from the state treasury and to account for money maintained outside of the state treasury in local bank accounts. Colleges use the local bank accounts to allow for greater flexibility in managing high volume transactions for financial

¹ The contract is authorized by [Minnesota Statutes](#) 2008, 3.9741, subd. 2.

aid, student activities, and auxiliary operations, such as bookstores and food services.

The colleges finance their operations through the Office of the Chancellor's allocation of state appropriation and the retention of their tuition and other receipts; this determines the college's total authorized spending level. The authorized spending level is the basis for establishing spending budgets for various administrative functions and academic departments. MnSCU's Supplement to the Annual Financial Report provides additional information on the colleges' financial operations.

Table 1 recaps student, employee, and financial information for the eight colleges in our audit scope.

Table 1 Selected Information for Fiscal Year 2008					
College	Student FYE¹	Faculty FTE¹	Staff/ Admin FTE¹	Total Operating Revenue² (in 000's)	Total Operating Expenses³ (in 000's)
Alexandria	2,111	123	104	\$24,469	\$25,480
Anoka	1,527	97	80	\$18,387	\$18,004
Dakota	2,104	135	124	\$28,698	\$28,598
Lake Superior	3,416	185	148	\$33,300	\$35,149
North Hennepin	4,314	218	171	\$37,265	\$38,322
Northland	2,774	200	119	\$32,306	\$33,610
Saint Paul	3,499	198	145	\$38,144	\$39,287
South Central	2,504	189	130	\$31,120	\$30,672

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, federal and state grants, other income, and state appropriations allocated to each college.

³ Colleges used prior year's accumulated reserves to fund expenses that exceeded revenues for fiscal year 2008.

Source: Financial information obtained from the MnSCU Supplement to the Annual Financial Report for the year ended June 30, 2008. Other data obtained from the MnSCU accounting system and MnSCU's budget and human resources divisions' web sites.

Objectives, Scope, and Methodology

Our audit included selected financial activities of the eight MnSCU colleges. The audited activities included security over access to computerized accounting

applications, tuition and fee revenues, banking, employee payroll, operating and administrative expenses (contract services, employee expense reimbursements, credit card purchases, and supplies), equipment purchases and inventory, capital project spending, and bookstore revenues for fiscal years 2006, 2007, and 2008.

Our audit objective was to answer the following questions:

- Were internal controls at the MnSCU colleges in our scope adequate to ensure that the colleges 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 colleges in our scope comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?
- Did the MnSCU colleges resolve prior audit findings specific to this group of colleges?²
- Did the Office of the Chancellor resolve systemic findings resulting from our 2008 audit of other colleges?^{3 & 4}

To answer these questions, we interviewed 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 colleges' controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

At Saint Paul College, we were unable to audit bookstore activity and equipment inventory for fiscal years 2006 and 2007 and transactions related to faculty employee leave and some other areas for fiscal year 2006. College staff stated

² Office of the Legislative Auditor's Financial Audit Division reports: 06-17, *Lake Superior College*, issued June 20, 2006; 06-28, *Minnesota State Colleges and Universities*, issued October 18, 2006; and 07-25, *Minnesota State Colleges and Universities*, issued September 18, 2007.

³ Office of the Legislative Auditor's Financial Audit Division report 08-23, *Minnesota State Colleges and Universities*, issued October 8, 2008.

⁴ A systemic finding is an internal control or compliance weakness noted at a majority of the audited colleges that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

that the documentation supporting this financial activity was inadvertently destroyed by water damage in their records storage area.

We did not assess two prior systemic audit findings, involving bids for banking services and retention of sensitive credit card payment information, since the MnSCU Office of the Chancellor was in the process of addressing these findings.

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.⁵ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the Department of Management and Budget 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 eight MnSCU colleges included in our scope generally had adequate internal controls over major financial activities, such as tuition payments, employee salaries, and operating expenses.⁶ These controls generally ensured that the colleges 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 colleges had some control weaknesses and noncompliance in certain areas that have a high-risk for errors, such as computer security access to financial systems, employee leave benefits, and management of equipment and college-issued credit cards.

⁵ 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.

⁶ Internal controls and compliance over certain financial transactions at Saint Paul College could not be assessed due to damaged financial records.

For the items tested, the colleges generally complied with MnSCU policies and finance-related legal requirements. However, the colleges did not comply with some legal provisions related to leave benefits, procurement, credit cards, and employee expense reimbursements.

The MnSCU colleges resolved most prior audit findings specific to this group of colleges; however, two systemic findings in this report (findings 1 and 2) are prior issues for these colleges, and colleges did not resolve some other findings that we repeat in this report. In addition, the MnSCU Office of the Chancellor continues to work towards resolution of systemic findings raised during the previous audit of different colleges concerning bids for banking services and retention of sensitive student credit card payment information.

The following *Findings and Recommendations* section of the report identifies the internal control weaknesses and noncompliance concerns. The section is divided into two parts, as follows:

Section A includes significant internal control weaknesses and compliance concerns related to specific colleges and systemic weaknesses noted at a majority of the colleges we audited. We think resolution of these findings needs directive, guidance, and oversight from the MnSCU Office of the Chancellor.

Section B includes other internal control and compliance weaknesses related to the colleges. We think these findings can be effectively resolved by college management.

Findings and Recommendations

Section A – Significant and Systemic Findings

Prior Systemic Finding Not Resolved: Colleges did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

Finding 1

The colleges continued to allow employees to have incompatible access to accounting systems without defining, documenting, or monitoring the effectiveness of mitigating controls. Although the Office of the Chancellor had identified incompatible security groups that colleges should avoid, it did not always 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 recently upgraded its accounting systems and has plans to assemble a work group to reassess incompatibility risks and design effective detective controls.

Separation of incompatible duties is a fundamental internal control. It typically involves the separation of authorization, custody, recordkeeping, and reconciliation duties among different people. 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 to have *detective controls* 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 over time. In an environment where an entity does not separate incompatible duties and does not implement effective detective controls, there is a high risk that error or fraud could occur without detection.

Table 2 recaps the number of employees who have incompatible access without effective mitigating controls and those with unnecessary access to financial system functions at the audited colleges.

Table 2
Number of Employees with
Incompatible or Unnecessary Access

MnSCU College	Accounts Receivable¹	Accounts Payable²	Unnecessary Access³
Alexandria	3	6	0
Anoka	1	0	0
Dakota	8	1	4
Lake Superior	7	6	14
North Hennepin	10	7	10
Northland	6	3	4
Saint Paul	10	8	10
South Central	11	4	13

¹ Incompatible access to accounts receivable functions included cashiers who handled cash and could 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 included employees who initiated purchases and could 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 to certain functions based on their job responsibilities.

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

While some colleges had begun to develop mitigating controls, those controls were not documented. A well-designed plan to address the risks created by allowing incompatible access should include written procedures that identify the specific employees who have incompatible access; the controls designed to mitigate the risks from that incompatible access and an explanation of how the controls mitigate the risks; the frequency and steps involved in performing the mitigating controls; the individual(s) assigned to perform the mitigating controls; and the documentation necessary to monitor the performance of the controls.

Recommendations

- *The colleges should eliminate employee access to incompatible accounting system functions or establish 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 provide guidance to colleges to identify risks and develop effective detective controls that address the access incompatibilities.*

Prior Systemic Finding Not Resolved: Colleges did not accurately account for faculty and administrator leave benefits.⁷**Finding 2**

Colleges continued to have problems accounting for leave benefits. All eight colleges made errors in posting leave earned and taken by some administrators and faculty. While MnSCU's computerized system has some level of automation, it does not always accurately incorporate the leave provisions of the various bargaining agreements. As a result, colleges need to develop a stronger independent review and adjust leave records as needed to ensure they are accurate. Errors in recording sick and vacation leave earned and taken result in inaccurate leave balances.

Colleges had a variety of errors in posting leave earned, as follows:

- Six colleges (Alexandria, Dakota, Lake Superior, Northland, Saint Paul, and South Central) had instances where administrators and faculty accrued more leave than they were entitled. Dakota and Saint Paul also had instances where administrators did not receive all their eligible sick and vacation leave.
- Six colleges (Alexandria, Anoka, Dakota, Lake Superior, Northland, and Saint Paul) had faculty employees that either did not accrue or inaccurately accrued the additional sick leave for summer instruction assignments they were entitled.⁸
- Saint Paul had problems with leave adjustments. The college did not adjust vacation leave accruals for one administrator who was approved to accrue more leave due to a change in the employee's leave accrual date.⁹ In addition, the college did not reverse sick and vacation leave advanced to an administrator once the equivalent amount of leave was earned.¹⁰ Finally, the college inappropriately reinstated 11.5 days of sick leave to an administrator without approval and evidence supporting how it calculated the reinstated amount.

⁷ MnSCU colleges maintain leave records for administrators and faculty in MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS).

⁸ The Minnesota State College Faculty Agreement for 2007-2009, Article 14, Section 3, Subd. 5, 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.

⁹ The MnSCU Administrators Plan for 2007-2009, Section 1.06, Subd. 1(a), allows colleges to grant earlier leave accrual dates based on prior related employment. Administrators may make a written request for the earlier date at any time, with any change in accrual rate effective the first full pay period in the fiscal year the request is approved.

¹⁰ The MnSCU Administrators Plan for 2007-2009, Section 1.06, Subd. 1(a) and 2(a), provides for vacation and sick leave advances to new administrators to be reduced proportionately as leave is accrued.

- Anoka and Dakota had instances where manual adjustments posted faculty leave accruals that duplicated automated leave accruals already provided.
- Seven colleges (Alexandria, Anoka, Dakota, Lake Superior, North Hennepin, Saint Paul, and South Central) inappropriately provided leave to adjunct faculty who were not entitled to it. Anoka and Dakota also had instances where part-time faculty did not properly accrue leave. Finally, Anoka and Saint Paul had instances where staff inaccurately prorated leave accruals for part-time faculty.¹¹

Colleges also had numerous errors in recording leave taken, as follows:

- Five colleges (Alexandria, Dakota, Lake Superior, Saint Paul, and South Central) had instances where employees took leave, as evidenced by leave forms, but the colleges did not reduce that leave from their leave balance.
- Four colleges (Anoka, Lake Superior, Saint Paul, and South Central) had some recorded leave taken that was not supported by a leave form to allow verification of the accuracy of leave posted.
- Anoka and Saint Paul had posting errors where the recorded leave taken amounts did not match the amounts on leave forms.
- Saint Paul made mistakes recording personal leave taken by faculty as sick leave taken and vacation leave taken by administrators as sick leave taken.
- Anoka and Lake Superior did not properly prorate recorded leave taken for part-time faculty.¹¹

In addition, six colleges (Alexandria, Anoka, Lake Superior, North Hennepin, Saint Paul, and South Central) did not always reduce the recorded leave balances for terminated employees by the amounts liquidated as vacation payoffs and severance.

None of the colleges had effective controls to prevent, identify, or correct the types of errors we found. The Office of the Chancellor should help colleges develop the tools necessary to establish effective controls.

¹¹ The Minnesota State College Faculty Agreement for 2007-2009 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 and earn prorated leave based on their credit load, with leave taken also prorated.

Recommendations

- *The Office of the Chancellor should work with colleges to address leave accounting problems and consider improvements in the computerized leave module of the personnel system.*
- *The colleges should develop effective controls to ensure they accurately account for faculty and administrator leave benefits.*

Systemic Finding: Seven colleges did not adequately manage their equipment and sensitive asset inventories.

Finding 3

Seven colleges (all except Lake Superior) did not accurately record acquisitions and disposals of equipment and sensitive assets in their inventory records. Some of the purchases we tested were either not recorded in the inventory records, recorded at an incorrect value, or were unable to be located.

Throughout our testing, we found exceptions to the colleges' compliance with MnSCU policies and procedures.¹² Colleges did not record some equipment or sensitive items purchased or donated in the inventory records, did not always affix asset numbers to purchased or donated items to identify them as college property, recorded some items at the wrong value, did not have an effective process to track disposals of inventoried items, and did not always conduct required physical inventories.

Following are examples of some of the colleges' weaknesses:

- The seven colleges did not always add purchased sensitive assets, such as computer equipment costing less than \$5,000, in the equipment/capital asset module. The Office of the Chancellor had not developed a unique code for colleges to use when they record these purchases. A unique code would allow the colleges to more easily identify purchases of sensitive assets and reconcile them to the equipment/capital asset inventory list.
- Two colleges (Saint Paul and South Central) did not record all purchased or donated equipment exceeding \$5,000 in the equipment/capital asset module.

¹² MnSCU Procedure 7.3.13, Part 2, requires colleges to remove disposed items from the equipment/capital asset module at the time of disposal.

MnSCU Procedure 7.3.6, Part 5, requires colleges to record donated assets at their fair market value at the time received and requires third party documentation to support that fair market value.

MnSCU Procedure 7.3.6, Part 4, requires colleges to perform an annual physical inventory of all assets with an acquisition cost or value of \$10,000 or greater and a physical inventory of all other assets recorded in the equipment/capital asset module at least every three years.

- Northland inappropriately reduced the value of new purchases by \$8,200 of assets traded in.
- Dakota did not affix asset numbers on donated equipment and did not record the items in the accounting and equipment/capital asset modules until three to eleven months later, based on the donors' annual reports. In one instance, the college was unable to find a donated item reported by the donor. The college also did not verify the values of the donated items reported by the foundation.
- Dakota, North Hennepin, Northland, Saint Paul, and South Central did not have an effective process to notify the business office when staff disposed of equipment and sensitive items. Also, when not found during physical inventory, Northland and Saint Paul did not promptly remove disposed assets. Finally, North Hennepin did not record any asset disposals.
- North Hennepin, Northland, and South Central did not always identify the fixed asset numbers of assets sold to ensure that the colleges collected, deposited, and recorded the money from those sales and removed sold assets from the equipment/capital asset module.
- During fiscal years 2006 through 2008, North Hennepin and South Central did not perform any physical inventories of equipment and sensitive assets.
- Anoka did not retain documentation to support the annual physical inventories it said it conducted in 2006 through 2008.

During fiscal years 2006 through 2008, the colleges spent approximately \$9 million to purchase equipment and used additional resources to purchase less expensive, but sensitive assets more susceptible to loss or theft. It is important for colleges to maintain complete and accurate records of these assets to ensure that they are available for appropriate use by college personnel and students.

Recommendations

- *The Office of the Chancellor should ensure that colleges are aware of and comply with MnSCU policies and procedures applicable to equipment and sensitive assets inventory. Possible actions include enhanced training of college staff and centralized monitoring of physical inventory results.*
-

- *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 and donated assets in the equipment/capital asset module;*
 - *perform physical inventories as required;*
 - *promptly remove disposed assets, including sold assets, from the equipment/capital asset module; and*
 - *properly account for proceeds from equipment sales.*

Systemic Finding: The eight colleges did not sufficiently control employees' use of college-issued credit cards.

Finding 4

Each college had several weaknesses with their oversight of purchases made by employees that had college-issued credit cards.¹³ Some of the credit card transactions we tested had some element of noncompliance with MnSCU's policies and procedures. MnSCU designed these policies and procedures to limit the risk that employees may use college credit cards to buy inappropriate items and to ensure credit card purchases comply with its other purchasing, special expense, and travel-related policies and procedures.

Following are some examples of the colleges' weaknesses:

- **Insufficient card limits** - Two colleges (Anoka and Dakota) did not establish transaction limits and did not restrict the use of credit cards by blocking purchases from certain merchant categories.¹⁴ Anoka did not set a transaction purchasing limit for one cardholder and set a purchasing limit for another cardholder that exceeded its internal college policy. Dakota did not set dollar limits for individual purchases by any of its cardholders. Neither college attempted to establish stronger control over card use by blocking certain merchant categories (for example, alcohol or entertainment), as required by MnSCU policy.
- **Card sharing** - South Central had one cardholder that shared the college credit card with other employees to allow them to make college-related purchases.¹⁵

¹³ MnSCU Procedure 7.3.3 allows colleges to obtain institutional credit cards in the name of the college and an individual employee.

¹⁴ MnSCU Procedure 7.3.3, Part 4, requires colleges to establish procedures to monitor credit card use, including dollar limits per transaction and per billing cycle and the use of merchant category blocking.

¹⁵ MnSCU Procedure 7.3.3, Part 7, prohibits cardholders from allowing anyone else to use the credit card and/or credit card account number.

- **Lack of receipts for purchases** - Five colleges (Anoka, Dakota, North Hennepin, Northland, and South Central) had cardholders that did not provide original itemized receipts for some purchases. Those five colleges also had cardholders that did not review monthly credit card statements and submit them, along with purchase documentation, to the business office in a timely manner.¹⁶ In addition, Anoka, Northland, and South Central also had cardholders whose monthly credit card purchases were not reviewed and approved by supervisors, as required by the colleges' internal policies.
- **Unallowable purchases** - Four colleges (North Hennepin, Northland, Saint Paul, and South Central) had cardholders that purchased unallowable items.¹⁷ Examples included:
 - *Personal purchases* - North Hennepin, Northland, and Saint Paul had cardholders that purchased items for personal use. Even though each cardholder subsequently reimbursed the college for those purchases, the practice is not permitted.
 - *Meals in travel status* - North Hennepin and South Central had cardholders that paid for individual meals and other travel expenses with their credit cards. Instead, the employees should have paid for those expenses with personal funds and submitted the claims on employee expense reimbursement forms so that the college could determine whether the expenses met reimbursement requirements.
 - *Entertainment* - North Hennepin and Northland had cardholders that made entertainment purchases for student activities that were paid for with student activity fees. North Hennepin purchased \$708 for tickets to professional sporting events and movies, while Northland purchased \$486 for golf and other recreation activities. MnSCU procedures prohibit use of college credit cards for entertainment and do not have different criteria for student activity purchases.
 - *Catering with alcohol* - An employee at Saint Paul used their college-issued credit card to inappropriately pay for catering services that included alcoholic beverages and a bartender for a college event. The college's foundation intended to fund the event, and it subsequently reimbursed the college for the catering costs. After this event, the college placed additional merchant category blocks on the credit cards to prevent similar purchases.

¹⁶ MnSCU Procedure 7.3.3, Part 7, requires cardholders to obtain and retain original itemized receipts for all purchases, to promptly review monthly credit card statements, and to promptly submit the statements, receipts, and any other documentation to the business office for payment processing.

¹⁷ MnSCU Procedure 7.3.3, Part 6, lists items not allowed to be purchased with credit cards, including items for personal use; individual meals and other travel expenses; entertainment or recreation items; and alcoholic beverages.

- **Late fees** - Dakota incurred \$302 in late payment fees the credit card company assessed for seven consecutive months in fiscal year 2008 and \$63 in late payment fees assessed for two consecutive months in fiscal year 2009. The college attributed all the late payment fees to one cardholder who routinely failed to submit monthly credit card statements and purchase receipts to the business office; however, the college did not take appropriate and timely action against the employee to either ensure compliance or revoke the card.
- **Special expense food purchases** - All eight colleges had cardholders that purchased food, beverages, and related items for groups or for college events without advance approval to incur those special expenses.¹⁸
- **Lack of encumbrance** - Six colleges (Anoka, Dakota, Lake Superior, North Hennepin, Northland, and South Central) did not properly encumber funds prior to incurring obligations for some credit card purchases.¹⁹

Recommendations

- *The Office of the Chancellor should enhance its training of business office staff and cardholders to ensure that they are aware of MnSCU credit card policies and procedures and the consequences of noncompliance with those policies.*
- *The colleges should improve their oversight of purchases made by employees with college-issued credit cards to ensure compliance with MnSCU credit card and other purchasing policies and procedures.*

Anoka did not document decisions supporting some faculty members' compensation.

Finding 5

Anoka did not always document its decisions for determining compensation for faculty members' assignments. In 17 of 28 faculty assignments tested, the college did not have sufficient documentation to support employee base salary and supplemental compensation decisions. For example:

- The college did not document the basis for paying nursing instructors and some other faculty members who had the option to be paid either for the

¹⁸ MnSCU Procedure 7.3.3, Part 6, allows purchases of special expenses with credit cards provided those purchases comply with MnSCU Procedure 5.20.1 for special expenses and are approved in advance.

¹⁹ MnSCU Procedure 5.14.5, Part 5, requires funds to be encumbered prior to incurring obligations. MnSCU Procedure 7.3.3, Part 5, requires encumbrances for the estimated annual credit card purchases unless another encumbering process is established.

credits taught for each class or the number of contact hours for each class. Each method resulted in different compensation amounts. Compensation for some of the faculty assignments tested did not agree to either method.

- For the 2006 – 2007 academic year, the college did not distinguish the number of credits assigned by semester for a college mentoring program. Instead, the college assigned the credits for the entire year which may have impacted raises given during the middle of the year. For example, employees who received an increase in the middle of the year may have had the raise inappropriately applied to credits assigned in the fall. By not assigning the credits by semester, the college may have inaccurately compensated some faculty for those assignments.
- The college did not have evidence to support the credit allocation between faculty members who co-taught a course. Although the college allocated the total number of credits between the faculty members, the college could not support authorization for the credit allocation, weakening the assurance that the college accurately paid each faculty member.
- For two assignments tested, the college could not provide documentation to support the correct number of credits assigned.

Because the college did not have adequate documentation to substantiate faculty assignments, it could not reasonably confirm that it paid faculty members accurately.

Recommendation

- *Anoka should improve its controls over faculty members' pay, by preparing and retaining adequate supporting documentation to substantiate its compensation decisions.*

Finding 6

North Hennepin inappropriately rehired an employee into a permanent position after the employee retired and received an early retirement incentive.

The college paid the employee \$36,800 in severance pay and approved a \$68,000 early retirement incentive, then rehired the employee two weeks later.²⁰ E-mails between the college president and the employee indicated that the employee's position upon rehire would be a permanent position.

²⁰ The college paid \$34,000 of the early retirement incentive to the employee in April 2008 when she retired. The college delayed the remaining \$34,000 payment, originally due to the employee in April 2009, pending the resolution of this finding.

MnSCU policy restricts the re-employment of an employee who received an early retirement incentive to a “limited period,” but the policy does not define “limited period.”²¹ Without a clear definition of what constitutes a limited period, there is a risk that a college could circumvent the intent of the early retirement provision and allow an employee to receive an inappropriate payment.

In addition, the college did not perform an analysis to determine whether it was cost effective to pay the employee the early retirement incentive. This analysis would typically determine whether the college could offset the cost of the early retirement incentive over a reasonable period, often by filling the vacant position with a lower-paid employee. The MnSCU faculty bargaining agreement requires that the college perform this analysis.²²

Recommendations

- *MnSCU should revise its policy to define the meaning of a “limited period” for re-employment after an early retirement incentive has been paid.*
- *The Office of the Chancellor should require repayment of the early retirement incentive or limit the re-employment of the person at North Hennepin.*
- *The Office of the Chancellor should ensure that colleges and universities comply with the requirements of MnSCU policy and collective bargaining agreements relative to early retirement incentives.*

Alexandria inappropriately paid more severance to two former faculty employees under contract clauses they were not eligible for.

Finding 7

Alexandria paid two faculty employees more severance than was authorized. The two employees had been employed by the local school district before the 1995 merger of technical colleges into the state’s MnSCU system. As allowed by the terms of the applicable faculty contract, these employees exercised their option to have their severance paid under the 1995 school district employment contract. However, under that contract, the employees were not eligible to receive the severance, because they did not meet the age requirement of being at least 58 years old.

College personnel believed that “past practice” permitted larger severance payments beginning at age 55. To support this belief, the college provided us

²¹ MnSCU Policy 4.6, Re-Employment of Early Retirees.

²² Minnesota State College Faculty Agreement for 2007 – 2009, Art. 16, Sec. 2, subd. 2.

with a February 1997 e-mail between the college and the Office of the Chancellor's Human Resources Division. In the e-mail, the college stated that it had determined that the school district had established a "past practice" that allowed employees to receive the larger severance at age 55, rather than at 58, as stated in the contract.

We do not think this e-mail provided a sufficient basis to deviate from the contract terms. The e-mail did not provide support for or analysis of the "past practice" and did not seek or imply authorization from someone at the Office of the Chancellor with the authority to alter the contract provisions. In addition, while both employers and employees can use "past practice" as a way to define some aspects of employment, we think it is generally applicable in situations where an employment contract is silent. However, the 1995 school district contract clearly defines the minimum retirement age as 58.

We determined that the two employees would have been eligible for an enhanced severance payment under the terms of the current Minnesota State College Faculty Contract, in Article 16, Section 3. Under those provisions, their severance pay would have been \$12,861 and \$9,741 less, respectively.

Recommendations

- *The Office of the Chancellor should work with Alexandria to resolve the two overpayments cited in this finding and any other overpayments made by the college before fiscal year 2006.*
 - *The Office of the Chancellor should review whether other technical colleges used criteria, such as "past practice," that were different from contract terms. The office should resolve any overpayments that resulted.*
-

Section B – Other Findings

Finding 8

Colleges inaccurately compensated some employees.

All of the colleges made some mistakes in compensating their faculty. MnSCU's faculty contracts define the terms of faculty compensation. Typically, the college pays faculty based on the course credits taught. Although a faculty member may have an initial course schedule, the college may drop or add a course based on student enrollment. In addition, compensation changes if faculty has overload or special assignments, such as internships or independent study. Each college's academic department is responsible to report faculty assignments and any subsequent changes to their human resources departments.

Colleges had the following errors in sample transactions we tested:

- Three colleges (Lake Superior, Anoka, and South Central) had academic departments that did not properly notify their human resources offices about changes to faculty workload. Lake Superior overpaid a faculty member by \$1,360 because the academic department failed to report to the human resources office that it had dropped a course due to lack of enrollment. Anoka and South Central each underpaid a faculty member for credits they taught (\$1,150 and \$6,850, respectively) because the academic department did not report to the human resources offices that they had added a course to each faculty member's initial workload. The colleges did not detect the errors, because they did not have a process to reconcile actual course loads to paid course loads.
 - Four colleges (Dakota, North Hennepin, Northland, and Saint Paul) miscalculated compensation for certain faculty. Dakota did not properly include internship supervision and independent study assignments in its calculation of overload for one employee, resulting in an underpayment of nearly \$7,000. North Hennepin and Saint Paul each miscalculated the compensation to an employee for course loads based on contact hours instead of credits, resulting in an overpayment of more than \$13,000 and an underpayment of about \$1,650, respectively. Northland miscalculated the compensation for an employee's independent study assignment resulting in a \$1,900 overpayment. Each college had an academic department employee calculate the compensation pay, but none of the colleges had a process for a second employee (either in the academic department or human resources office) to verify the accuracy of the calculations.
 - Alexandria overpaid a faculty member by \$1,000 after incorrectly recording adjustments to lump sum payments it previously made. The college should subject adjustments to additional review and authorization.
-

- Northland did not accurately compensate two adjunct faculty employees for assigned courses. The college paid one employee at a higher rate than the maximum allowed, causing a \$240 overpayment, and underpaid another faculty by a half credit, or \$525.²³
- Anoka made several other types of compensation errors. The college overpaid a faculty member by \$3,500, because it used the wrong base salary in calculating overload pay. The college also underpaid three employees: One faculty member had a miscalculated substitution instruction assignment, a part-time faculty employee did not receive a retroactive salary increase, and an administrator's vacation conversion was incorrectly calculated based on prior year's salary.

Recommendations

- *The colleges should improve controls ensuring they accurately compensate employees for work performed and at the appropriate level of pay. In addition, compensation adjustments should be subjected to better scrutiny and review.*
- *The applicable colleges should resolve the compensation errors made to their employees.*

Finding 9

Anoka did not follow some contract terms when it paid some separation benefits.

Anoka incorrectly paid separation benefits for two employees. It incorrectly paid \$4,265 of severance benefits to an employee instead of to the employee's health care savings plan. Conversely, it incorrectly paid \$13,583 of another employee's early retirement incentive to that employee's health care savings plan instead of paying it to the employee. MnSCU's employee contracts specify the payment of termination benefits and have different requirements based on the type of termination pay.

²³ The Minnesota State College Faculty Agreement for 2007-2009, Article 13, Section 14, Subd. 2, defines 'adjunct' faculty as those that teach less than five credits in a semester, and sets the maximum compensation rate at \$1,200 per credit.

Recommendations

- *Anoka should improve controls to ensure it properly pays separation benefits in accordance with MnSCU's bargaining agreements.*
- *Anoka should work with the Office of the Chancellor to resolve the severance payment distribution errors.*

Two colleges did not promptly reconcile and resolve differences between their local bank account balances and the MnSCU accounting system.**Finding 10**

Northland and Saint Paul had the following problems with local bank account reconciliations to the MnSCU accounting system:

- Northland did not complete monthly bank reconciliations in a timely manner from February 2008 to January 2009. When the former business manager took a different position with the college in February 2008, the college stopped performing monthly bank reconciliations until it hired a new business manager in August 2008. From that point, it took several months for the college to get current with the reconciliations. In addition, the college did not fully reconcile the local bank account balances to the MnSCU accounting system. Monthly reconciliations for November 2005 through February 2009 had unexplained variances up to \$2,435.
- As of March 2009, Saint Paul College had not reconciled its September 2008 through February 2009 local bank account financial activity to the MnSCU accounting system. In addition, the bank reconciliations that the college had done did not sufficiently resolve differences between the local bank account balance and the MnSCU accounting system. The reconciliations for several months identified a consistent unexplained variance of nearly \$3,700, including many unresolved reconciling items that were more than a year old. Finally, the reconciliation worksheets were not signed or dated to acknowledge who completed them or when they were completed.

By not identifying and resolving bank differences in a timely manner, the colleges have an increased risk of fraud and inaccurate recording of financial transactions.

Recommendation

- *Northland and Saint Paul should reconcile their local bank accounts and resolve differences in a timely manner.*
-

Finding 11

Two colleges did not always ensure that banks pledged sufficient collateral to protect their local bank account balances.

Dakota and Northland did not always ensure that their local banks had pledged sufficient collateral to protect the colleges' balances from loss if the bank should fail. To protect and secure public funds on deposit at banks, *Minnesota Statutes* require public entities, including MnSCU colleges, to obtain collateral for deposit balances with the fair value of the collateral at least ten percent greater than the amount on deposit.²⁴ MnSCU procedures reiterate this statutory requirement. Colleges generally monitored compliance with these requirements by comparing amounts on deposit to the banks' monthly collateral reports. The colleges had the following problems:

- Dakota had insufficient collateral for 58 business days from October 2006, when it changed banks, to December 2006. It also did not obtain the bank's collateral reports from July 2007 through March 2008. Beginning in March 2008, the college prompted the bank to pledge additional collateral during peak collection periods when the college's balances were higher; however, at times, the bank's pledged collateral was insufficient. For example, collateral was insufficient for five days in September 2008 and for seven days in January 2009.
- Northland had insufficient collateral from one to seven days at the beginning of semesters because of financial aid receipts from the federal government. Although Northland received monthly collateral reports from its local banks, it did not use the reports to monitor whether pledged collateral was sufficient for days with high bank balances.

Without sufficient collateral, the colleges risked the loss of funds if the bank failed.

Recommendation

- *Dakota and Northland should work with their local banks to establish procedures that ensure local bank balances are sufficiently collateralized in accordance with state statute and MnSCU policy.*

²⁴ *Minnesota Statutes* 2008, 118A.03 and MnSCU Procedure 7.5.1, part 5.

Finding 12

Five colleges did not have strong controls to ensure cashiers were accountable for the money they collected.

Two colleges (Northland and South Central) allowed the cashiers who collected tuition to share cash register drawers and did not require them to separately log into cash register sessions with unique user accounts. As a result, cash register records and other receipt documentation would not allow the college to determine which cashier completed transactions or had access to receipts. This information is essential to resolve questions about specific transactions or discrepancies between the accounting records and bank deposits.

Northland's Thief River Falls cashier did not count daily receipts, including tuition, or balance them to the cash register records. The cashier brought the uncounted receipts to the business office for deposit. The business office also did not verify that the receipts balanced to the cash register records. Receipt counts are an important control to adequately safeguard revenues when receipts change hands. The verification to the cash register records helps to assure the college that it deposited all receipts.

In addition, bookstore cashiers at three colleges (Dakota, North Hennepin, and Saint Paul) shared cash register drawers. Although these colleges did require the cashiers to use unique individual user accounts to log in and out of the bookstore sales systems, the employees did not use separate cash register drawers.

Requiring cashiers to maintain separate cash drawers and separately log into the cash registers are important internal controls that 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. A college will have difficulty investigating missing cash if it cannot determine who recorded transactions or handled the cash. These weaknesses created an environment that provided an opportunity for fraud and were unacceptable financial practices for material receipt processes, such as tuition. While these weaknesses also create an opportunity for fraud in less material receipt areas, such as bookstores, colleges may determine that the risk of loss does not warrant the use of separate cash drawers and unique user accounts.

Recommendations

- *Northland and South Central should prohibit cashiers from sharing cash drawers and improve accountability by requiring cashiers to separately log into cash register sales systems using unique user accounts.*
-

- *Northland should require its Thief River Falls cashier to verify the accuracy of tuition receipts collected in its bookstore before bringing them to the business office for deposit.*
- *Dakota, North Hennepin, and Saint Paul should assess the cost-benefit of requiring separate cash drawers for bookstore operations. If the colleges allow cashier drawer sharing, they need to document their assessment and strategies for responding to cash shortages.*

Finding 13

Three colleges did not sufficiently document bookstore refunds, voids, or charges to accounts.

Two colleges (Dakota and North Hennepin) did not always document their bookstore refunds or explanations for voided bookstore transactions to allow for review by an independent employee. Dakota had undocumented refunds and voids for seven of fifteen days tested, and North Hennepin had some undocumented refunds or voids for seven of ten days tested. 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 to safeguard these receipts.

Two colleges (North Hennepin and Northland) did not always document bookstore sales charged to student or departmental accounts. North Hennepin had undocumented charges on three of ten days tested, and Northland had undocumented charges at its Thief River Falls campus on four of nine days tested. Without documentation, the college bookstores cannot substantiate the appropriateness of charges to accounts, which could result in lost or misreported revenue.

Recommendation

- *Dakota, North Hennepin, and Northland should establish procedures to sufficiently document and independently review bookstore refunds, voided bookstore transactions, and bookstore charges to accounts.*

Finding 14

Prior Finding Not Resolved: Each college had expense transactions that did not comply with certain MnSCU policies and procedures.

Each college had expense transactions that did not comply with certain MnSCU policies and procedures. This indicated weaknesses in the colleges' internal controls for expenses. MnSCU has policies and procedures with specific

requirements for procurement, contracts, and payments. These policies and procedures define the expectations of the MnSCU Board of Trustees and the Office of the Chancellor and the limits of colleges' authority for some types of transactions.

We analyzed the full population of expenses and tested hundreds of transactions. Our testing identified the following errors:

- Five colleges (Alexandria, Anoka, Lake Superior, Northland, and South Central) had some employees authorize purchases and payments without the proper authority. For example, Northland executed a construction contract for \$252,968, and South Central made an equipment purchase for \$180,270 without obtaining approval from the Office of the Chancellor, as required in MnSCU Procedures.²⁵ Other examples included employees with delegated purchasing authority that approved purchases for amounts exceeding their authority and purchases made by employees without any delegated purchasing authority.
- Five colleges (Alexandria, Dakota, Lake Superior, North Hennepin, and Saint Paul) made some purchases without obtaining multiple bids or quotations or without obtaining sealed bids when required.²⁶ Although Alexandria, Dakota, and North Hennepin asserted that they had not bid some purchases because the items or services were only available from a sole source vendor, the colleges did not sufficiently document their determination that no other vendor existed.
- Six colleges (Alexandria, Dakota, Lake Superior, North Hennepin, Northland, and Saint Paul) incurred obligations before encumbering funds for some purchases.²⁷
- Five colleges (Lake Superior, North Hennepin, Northland, Saint Paul, and South Central) inappropriately procured certain services using purchase orders instead of formally signed contracts. For example, one college procured the installation of an auto body paint booth for \$43,000 without a contract.

²⁵ MnSCU Procedure 5.14.5, Part 2, requires approval from the Office of the Chancellor for purchases exceeding \$100,000. MnSCU Procedure 6.5.5, Part 2, requires approval from the Office of the Chancellor for construction projects exceeding \$250,000.

²⁶ MnSCU Procedure 5.14.5, Part 4, requires multiple bids or quotations for purchases of \$10,000 or more and requires sealed bids solicited by public notice for purchases of \$25,000 or more. Some colleges also had internal policies requiring multiple quotations for purchases at lower dollar amounts.

²⁷ MnSCU Procedures 5.14.2, Part 4; 5.14.5, Part 5; and 6.5.5, Part 6, require colleges to encumber funds before incurring obligations.

- Lake Superior paid one professional-technical services contractor \$4,270 more than the amount specified in the contract.
- South Central paid three vendors for services totaling \$63,212 without evidence that it had received the services.
- North Hennepin inappropriately paid \$1,000 for an employee to renew a realtor license. The renewal would have been free if the employee had renewed it by the due date.
- Four colleges (Anoka, Dakota, Lake Superior, and Saint Paul) did not record the correct date of liability for several transactions in the accounting system. Colleges used the invoice date, invoice due date, or payment approval date rather than the date the college received the goods or services.

Recommendation

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

Finding 15

Several colleges reimbursed employees for questionable expenses or did not require employees to provide sufficient documentation to substantiate claimed expenses.

Colleges had the following problems related to employee expense reimbursements:

- None of the colleges had policies to control employee purchases of nontravel-related items, such as office or classroom supplies, with personal funds and then submit those claims for reimbursement. Without specific policies that established guidelines and limits, employees could purchase and be reimbursed for items that should have been subject to the controls of the colleges' regular procurement channels. For example, an Alexandria employee purchased some athletic equipment for \$3,176; a Saint Paul employee purchased a laptop computer for \$3,009; and a South Central employee purchased software for \$4,010. Although the items appeared to have been for legitimate college use, the purchases circumvented requirements for competitive procurement and encumbrance of funds. Also, in some instances, the employees may have earned rewards on their personal credit cards in connection with these purchases.
-

- Alexandria reimbursed some employees for food, beverages, and related items for groups or for college events without advance approval to incur those special expenses.²⁸
- Northland paid for personal travel costs when a faculty member combined personal and business travel, resulting in an estimated \$540 overpayment. The employee combined a one day out-of-state conference in New York with a week-long personal trip accompanied by his spouse.²⁹ Based on the conference itinerary, the employee was reasonably entitled to reimbursement for two nights lodging, two days of car rental, and for meals not provided by the conference. The employee should not have been reimbursed for the personal part of the trip, including four nights lodging, four days of car rental, \$66 in gas for the rental car, \$7 in toll fees, \$146 in meals for the first four days of the trip, and a \$10 breakfast that was actually provided at the conference. In addition, the required out-of-state travel request form was not authorized until after the trip was completed.
- Several colleges reimbursed employees for certain travel-related expenses that were either inappropriate or not adequately documented:
 - Five colleges (Alexandria, Dakota, North Hennepin, Northland, and South Central) did not require employees to document support for mileage reimbursement claims. Each college had instances where the reimbursed miles exceeded the distances between cities or did not identify the addresses of each stop listed.³⁰ South Central reimbursed one employee nearly \$15,000 over three years for mileage that did not identify the destination city or address. State travel policy encourages the use of the official state mileage book or reliable Internet mapping tools to determine the reasonableness of miles claimed.³¹ Colleges should establish procedures for business office staff to validate mileage, require employees to attach measurements to expense reimbursement forms, and/or establish mileage tables for locations commonly traveled.
 - Two colleges (North Hennepin and Northland) did not verify eligibility for meals when staff attended conferences. North Hennepin had six instances and Northland had one instance where the colleges reimbursed employees for meals during conferences, but did not obtain conference agendas or itineraries to determine whether the meals were included in the conference registration fee.

²⁸ MnSCU Procedure 5.20.1 requires advance approval of special expenses.

²⁹ MnSCU Procedure 5.19.3, Part 5, allows a spouse to travel with an employee at the expense of the employee.

³⁰ MnSCU Procedure 5.19.3, Part 7, Subpart D, states that mileage reimbursements must comply with state policy as outlined in the Department of Management and Budget's SEMA4 Operating Policy and Procedure Manual. The mileage policy in that manual states that addresses for all stops must be listed for claims, including local miles.

³¹ SEMA4 Policy PAY 00028.

- Lake Superior reimbursed two employees for out-of-state travel expenses without documented advance approval.³² The college reimbursed one employee \$1,317 for a trip with no written approval and reimbursed another employee \$821 for a trip that the college did not approve until after the employee purchased a plane ticket.

Recommendations

- *Colleges should develop policies to establish guidelines and limits for employee expense reimbursement of nontravel-related purchases.*
- *The following colleges should improve controls and compliance over travel-related employee expense reimbursements:*
 - *Northland should recover the inappropriate expenses reimbursed to the employee in question and develop procedures to ensure that it does not reimburse employees for their personal share of travel costs while on college-paid business trips.*
 - *Alexandria, Dakota, North Hennepin, Northland, and South Central should develop procedures requiring employees to provide sufficient detail to substantiate mileage claims, and/or business office staff to verify the distances claimed for mileage reimbursement.*
 - *North Hennepin and Northland should develop procedures to ensure they only reimburse employees for eligible meals by comparing claims to conference agendas.*
 - *Lake Superior should develop procedures to ensure that it documents its approval for all out-of-state travel before incurring any travel costs.*

Finding 16

Two colleges did not retain records to support important financial activity.

Two colleges (Lake Superior and Northland) did not have documentation to support various transactions selected for testing:

- Lake Superior was missing all supporting documentation for two vendor payments totaling \$29,305, and two employee expense reimbursements totaling \$5,039. The college was also missing some documents, such as

³² MnSCU Procedure 5.19.3, Part 3, requires written prior approval for all out-of-state travel prior to any travel and the actual incurrence of expenses.

invoices and packing slips, to support two purchases totaling about \$103,000.

- Northland could not locate evidence supporting requests and authorizations for student tuition waivers processed in fiscal years 2006 and 2007. The college did provide computer screen prints and student transcripts to support the waiver transactions.

Minnesota Statutes require all officers and agencies of the state to maintain records necessary to provide full and accurate documentation of official activities.³³ 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 documentation, the colleges were unable to support the propriety of the transactions, or that the transactions complied with statutory and MnSCU requirements.

Recommendation

- *Lake Superior and Northland should improve controls over the retention of documentation supporting its financial transactions.*

Northland erroneously refunded tuition and fees to one student.

Finding 17

Northland made an inappropriate \$1,750 refund to a student for the spring 2008 term. The student withdrew from all courses after the college used the student's financial aid to pay the student's tuition and fee charges. However, the college improperly refunded the money to the student instead of using those funds to repay the financial aid. The college subsequently pursued recovery of the refund, but ultimately wrote it off as uncollectible.

³³ *Minnesota Statutes* 2007, 15.17, subd. 1 and 2.

Recommendation

- *Northland should establish procedures to ensure it does not disburse refunds to students until after all financial obligations to the college have been satisfied.*

Finding 18 All eight colleges charged special course fees to students without documenting the basis for the fees charged or obtaining appropriate authorization.

For fiscal years 2006 through 2008, none of the colleges reviewed had a formal process to review and approve the special course fees they charged to students. MnSCU policy allows colleges to charge students for no more than the actual cost of "...items that become the personal property of a student and have an educational or personal value beyond the classroom or for services for or on the behalf of the students."³⁴ MnSCU policy also requires that the college president approve these types of fees.³⁵

The colleges generally did not require documentation to justify the special course fee amounts, and none of the college presidents had either approved the fees or formally delegated this responsibility to other staff. Instead, academic deans generally approved the fees that faculty requested for the courses they taught. At three colleges (Lake Superior, North Hennepin, and Saint Paul), the chief financial officers also reviewed and approved the fees; however, they were not formally delegated that authority by their college presidents.³⁶

Some of the special course fees colleges charged were for consumable items, such as fuel, paper, and printing supplies; MnSCU policy prohibits charging fees for consumable supplies.³⁷ Without a formal process to review and approve proposed special course fees, colleges were more likely to charge fees for inappropriate or unallowable items or services.

In May 2008, Lake Superior started an effective practice to document the basis for the special course fees or service charges by requiring order forms, quotes, or invoices to support the costs of items or services provided. Without that type of documentation, colleges cannot demonstrate that fee amounts were reasonable and did not exceed the actual costs of items or services provided to students.

³⁴ MnSCU Policy 5.11, Part 3, Subpart C.

³⁵ MnSCU Procedure 5.11.1, Part 6.

³⁶ In May 2008 Lake Superior did formally delegate that authority to its chief financial officer and business manager for fees beginning in the 2008-2009 academic year.

³⁷ MnSCU Procedure 5.11.1, Part 6.

Recommendations

- *Colleges should develop procedures to ensure they charge special course fees only for allowable items and services and to ensure that fee amounts do not exceed the actual costs of items or services provided.*
- *College presidents should review and approve all special course fees or formally delegate that authority to appropriate individuals or groups.*

Six colleges did not verify the accuracy of recorded tuition and fee waivers.**Finding 19**

Six colleges (Anoka, Dakota, Lake Superior, North Hennepin, Northland, and South Central) did not verify that they accurately recorded the authorized tuition and fee waivers on the accounting system. MnSCU policy allows colleges to waive tuition and fees for employees, as provided by employment contracts, and other students due to special circumstances.³⁸ Colleges manually recorded waiver transactions in the accounting system based on forms authorized by the college human resources departments (for employee waivers) or college presidents or their designees (for student waivers). Waivers are high-risk transactions, because they reduce a college's revenue.

Three colleges had discrepancies between authorized and recorded waivers for the samples we tested: Lake Superior had two instances when it waived more than the authorized amounts, Anoka had one instance when it did not waive fees that had been authorized, and Dakota had one instance where the college waived more than the authorized amount, although the student was eligible for the additional amount waived. In addition, Dakota did not always have sufficient documentation of waivers authorized for senior citizens.

In fiscal year 2009, MnSCU created an electronic waiver process to track, limit, and authorize employee waivers; however, the new process did not include a step to ensure that the authorized waivers agreed with waivers recorded in the accounting system.

Recommendations

- *Colleges should develop control procedures to compare authorized waivers to waivers recorded in the accounting system.*
- *Dakota should develop procedures to sufficiently document its authorization of senior citizen waivers.*

³⁸ MnSCU Policy 5.12, Part 2, Subpart E.

Finding 20

Prior Finding Partially Resolved: Lake Superior cashiers did not obtain the required authorization before establishing certain tuition payment plans.

Lake Superior offered payment plans to students who are unable to pay their tuition at the time of registration. The college offered a payment plan administered through a third party and payment plans administered by the college.

For the payment plans administered by the college, the college's policy allowed the cashiers to establish unique repayment arrangements for individual students with the authorization of the vice president of finance and administration. However, cashiers routinely established these payment plans without obtaining proper authorization. None of the twelve payment plans we tested were properly authorized. In addition, six payment plans did not have contracts with the student, and four payment plans had contracts, but they were not signed by the student.

Lake Superior's policy allowed repayment terms that did not comply with MnSCU policy. MnSCU policy required that the student pay the lesser of 15 percent of the amount due or \$300 as a down payment.³⁹ However, Lake Superior's policy did not require a down payment. MnSCU policy also required the college to charge a payment plan administration fee to cover the costs of processing.⁴⁰ The college did not charge an administration fee.

Recommendations

- *Lake Superior should properly execute and authorize contracts when it negotiates payment plans.*
- *Lake Superior should revise its payment plan policy to comply with MnSCU policies.*

³⁹ MnSCU Policy 5.12.5.

⁴⁰ MnSCU Policy 5.12.



Minnesota
STATE COLLEGES
& UNIVERSITIES

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August 31, 2009

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 eight colleges.

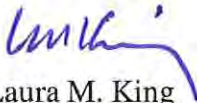
The Office of the Legislative Auditor performs a vital part of our financial assurance program through its audits of the various colleges. The Board of Trustees, Chancellor McCormick and I strive to maintain an environment of the highest professional standards. The work of your staff has helped test that environment and provide continuing assurance that state laws and internal control procedures are in place and in force at our colleges. We were pleased to note in your transmittal letter that *"The eight colleges in the Minnesota State Colleges and Universities (MnSCU) system included in our scope generally had adequate control over their major financial activities, such as tuition payments, employee salaries and operating expense."* The letter further notes that *"For the items tested, with certain exceptions, 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.

We find the new format to your report to be a great improvement over past years. The focus on "key significant and systemic findings" appropriately calls out areas of concern for attention by the chancellor and the college and university presidents. You have my assurance that we take these findings very seriously and will work diligently to remedy these issues.

We have evaluated all of the findings with the appropriate 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.



Laura M. King
Vice Chancellor – Chief Financial Officer

c: James H. McCormick, Chancellor
Selected college presidents and chief financial officers

Minnesota State Colleges and Universities
Response to the audit of nine colleges and the Office of the Chancellor
August 2009

Finding 1 - Prior Systemic Finding Not Resolved: Colleges did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

The colleges and the Office of the Chancellor agree with this finding and are in the process of making improvements that will assist colleges in determining and eliminating unnecessary access to ISRS. The colleges will refine and strengthen their current mitigating and detective controls in those areas where complete separation of incompatible duties cannot be achieved. The colleges will clearly articulate these controls in writing. One recent enhancement that was incorporated in the ISRS Accounting Module conversion to J2EE is that security access can be given for a set time frame with a beginning and end date (allowing for temporary access). The new security administrator application will require re-evaluation of access granted on an annual basis. Current security access will expire at the end of each calendar year with mandatory review and new access required for each employee. These new requirements will be performed at each college or university and coordinated by their security administrator. A built in error message will appear at the initial set up and will appear on reports at all times for incompatible security roles. A college or university can add their mitigating controls to this screen.

The Office of the Chancellor along with campus representatives have started security access work groups already and will continue to train and monitor progress in this area. Below are some additional steps and timelines in response to this finding.

New Security Administration Application

- In December 2008, MnSCU began designing and developing a new web-based ISRS Security Administration (SA) application.
- The SA application was initially deployed in April 2009 to manage security access for the new Accounting on the Web ISRS module.
- Additional development and testing for the SA application to manage security access for all other ISRS web and Uniface modules are targeted to be completed by December 2009.
- In September 2009, MnSCU will develop a training and implementation plan to allow use of the system for all ISRS security requests.

Incompatible Security Access Tables

- An effort has begun to update and expand (or develop new) incompatible security access tables currently posted on the Campus Tools and Resources webpage of the Finance Division website. The incompatible security access tables will be integrated into the SA application. A workgroup met on June 29, 2009, to review incompatible security access for the Accounts Receivable (AR) module, which also involves some update screens for the Accounting (AC), Accounts Payable (AP), Financial Aid (FA), and Registration (RG) modules. The updated AR incompatible security access table will be loaded to the Security Administration application during September 2009.

- The new AR incompatible security access table includes examples of mitigating controls, and will allow specific mitigating control descriptions to be added whenever incompatible security access is assigned by campus administrators.
- A second workgroup is scheduled to meet in September 2009 to begin the process to update and expand the Accounts Payable (AP) and Purchasing Control System (PCS) module incompatible security access tables. Upon completion, the updated incompatible security table will be integrated into the SA application, with a targeted date of October 2009.

This security application project will ultimately address all applicable modules and screens, but resource constraints will impact the pace of progress as full realization of the security potential of this application is tied to the conversion of each ISRS module to J2EE.

Each college and university as well as the Office of the Chancellor has identified security access administrators and other appropriate members have been assigned to the above identified work groups.

Finding 2 - Prior Systemic Finding Not Resolved: Colleges did not accurately account for faculty and administrator leave benefits.

The colleges and the Office of the Chancellor agrees with this finding and notes that this continues to be an area of concern and management's attention. Since the years covered in the audit, the Office of the Chancellor has undertaken significant efforts to improve the leave accounting processes across the system including:

- 1) Creating a spreadsheet clarifying the accrual and debit rates for TPT faculty for both former MCCFA and former UTCE faculty and providing them to campuses;
- 2) Clarifying the criteria for summer accruals for campuses;
- 3) Creating an on-line training tool (HR On-Line Help) with a dedicated section on faculty and administrative leave accrual;
- 4) Convening a task force of the SCUPPS user group to review the functionality, including reporting of the SCUPPS leave accrual process. The task force validated the process is working correctly, but did recommend some changes to the leave accrual calculation for eight assignment type codes affecting MSCF TPT faculty. These changes have been made and should help to significantly limit over and/or under accruals. The task force also determined that leave accrual functionality works correctly when reports are run timely to post accruals and when staff follow a strict protocol to debit leave as appropriate.
- 5) Sending out information regarding the proper management of leave for administrators, including criteria for consideration to grant prior service credit to adjust the leave accrual date, and the new sick leave liquidation (severance) calculation.
- 6) Raising the issue frequently regarding proper leave management at HR conferences, monthly conference calls and more.
- 7) Individual campuses have taken remedial action such as additional training of campus staff on leave accounting.

The Office of the Chancellor believes the effects of these efforts will be positive over time. In addition, the Office of the Chancellor plans to create a required training module on leave accounting for all staff across the system involved in this process, as well as any new staff who are hired or transfer to these functions. The training will not only reinforce the procedures, but will speak to the importance of this issue from an internal control perspective. In addition, the Office of the Chancellor will establish specific data queries to measure leave compliance and require all campuses and the Office of the Chancellor to participate in periodic reporting of leave accrual issues in the form of a dashboard. These dashboards will provide further diagnostics to determine if the concerns are continuing and how to focus our continued training efforts.

Finding 3 - Systemic Finding: Seven colleges did not adequately manage their equipment and sensitive asset inventories.

The colleges and the Office of the Chancellor agree with this finding and will strengthen processes for detecting errors and monitoring compliance with physical inventory results. Steps include creating a new object code for the colleges to use for sensitive items. The Office of the Chancellor will work with IT in creating an exception report for these items to assist colleges in properly entering all assets in the equipment module. This report will also serve as a tool in assisting colleges in their annual physical inventory evaluations. The Office of the Chancellor will incorporate this issue into a fiscal year 2010 training topic for all colleges and universities. These steps will be incorporated for all colleges and universities by June 30, 2010.

Finding 4 - Systemic Finding: The eight colleges did not sufficiently control employees' use of college-issued credit cards.

The colleges and the Office of the Chancellor agree with this finding. System Procedure 7.3.3, Credit Cards, requires each college and university that allows employee use of institution credit cards to establish procedures and forms for implementing and monitoring its credit card purchasing program. The Office of the Chancellor will take steps to ensure that colleges and universities have properly instituted the requirements of System Procedure 7.3.3, Credit Cards; that they are providing appropriate training to their business office staff and staff cardholders on these policies and procedures; and that they monitor their use to ensure compliance with those policies and procedures, by June 2010.

Finding 5 - Anoka did not document decisions supporting some faculty members' compensation.

Anoka Technical College and the Office of the Chancellor agree with this finding and the college has responded to resolve this issue. Employees have been properly trained in the appropriate documentation required to support faculty compensation. The college has created new forms and procedures that guide processing of faculty assignments, load and pay calculations, and SCUPPS/Sema4 data entry and reconciliation. The college's new processes require prior review and approval by appropriate unit leaders. All decisions are now appropriately documented with paper or electronic records retained in either personnel or data files.

Finding 6 - North Hennepin inappropriately rehired an employee into a permanent position after the employee retired and received an early retirement incentive.

North Hennepin Community College and the Office of the Chancellor agree with this finding. This issue has been resolved. The employee has been provided an amended appointment for a limited term in compliance with Board Policy.

Finding 7 - Alexandria inappropriately paid more severance to two former faculty employees under contract clauses they were not eligible for.

The Office of the Chancellor maintains that the use of past practice in the instances cited in the report was correct. Despite this, the Office of the Chancellor understands the concerns of the Office of Legislative Auditor and will explore the feasibility of other alternatives for any similar decisions that may arise in the future.

Findings 8- 20 – Colleges had control weaknesses and noncompliance with requirements of employee compensation, vendor procurements and payments, and employee expense reimbursements.

The colleges and the Office of the Chancellor agree with these findings and have designated a responsible party to insure that the corrective actions are in place by June 30, 2010. In some cases the necessary steps have already been taken and we have a commitment from all eight that they will work diligently to incorporate the recommendations in a timely manner. The colleges have shared with the Office of the Chancellor a list of responsible parties and estimated completion dates for findings affecting them.