



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

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**FINANCIAL AUDIT DIVISION REPORT**

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**Office of Higher Education**

**Internal Control and Compliance Audit**

**July 1, 2007, through December 31, 2009**

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**April 23, 2010**

**Report 10-16**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

April 23, 2010

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. David Metzen, Director  
Office of Higher Education

This report presents the results of our internal control and compliance audit of the Office of Higher Education for the period July 1, 2007, through December 31, 2009.

We discussed the results of the audit with the Office of Higher Education on April 13, 2010. The audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Melanie Greufe (Auditor-in-Charge), assisted by auditors Sadie Huber, Chau Nguyen, Blake Schwagel.

We received the full cooperation of the Office of Higher Education's staff while performing this audit.

A handwritten signature in black ink that reads 'James R. Nobles'.

James R. Nobles  
Legislative Auditor

A handwritten signature in black ink that reads 'Cecile M. Ferkul'.

Cecile M. Ferkul, CPA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

The Office of Higher Education (office) generally had adequate internal controls to ensure it safeguarded assets, accurately paid employees or vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the office generally complied with finance-related legal requirements. However, the office had some internal control and noncompliance deficiencies. The office resolved one prior audit finding and partially resolved the other, which we repeat in Finding 8.

## Key Findings

- The Office of Higher Education did not identify, analyze, and document its internal controls related to its business operations. ([Finding 1, page 7](#))
- The Office of Higher Education did not adequately restrict or monitor employee access to the state's accounting system. ([Finding 2, page 8](#))
- The Office of Higher Education did not retain audit documentation to support its compliance reviews. ([Finding 3, page 9](#))
- The Office of Higher Education did not properly administer its professional/technical services contracts. ([Finding 4, page 9](#))
- The Office of Higher Education did not properly account for certain receipts in the state's accounting system. ([Finding 5, page 10](#))
- Office of Higher Education did not adequately protect not public data on individuals. ([Finding 7, page 12](#))

## Audit Objectives and Scope

### Objectives

- Internal Controls
- Compliance

### Period Audited

July 1, 2007, through December 31, 2009

### Programs Audited

- Grants
- College Savings Plan
- Tuition Reciprocity
- Employee Payroll
- Minnesota Student Educational Loan Fund
- Professional/Technical Contracts
- Other Selected Administrative Expenditures



# Office of Higher Education

## Office Overview

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them access postsecondary education. Established in 1965, the office serves as the state's clearinghouse for data, research, and analysis on postsecondary enrollment, financial aid, finance, and trends. The Governor appointed David Metzen as the office's director in March 2009, replacing Susan Heegaard who had been the director since February 2004.

The office administers several grant and loan programs, oversees reciprocity agreements with neighboring states,<sup>1</sup> administers Minnesota's 529 college savings plan,<sup>2</sup> and creates an early awareness of the resources available to help the state's youth attain postsecondary education.

The office's Minnesota State Grant Program is a need-based program that provides undergraduate students with tuition assistance at eligible Minnesota public and private postsecondary institutions of their choice. Participating schools screen the applications, calculate the awards, and disburse the grants to the students. Other grant programs provide funding for work-study and child care assistance.

The office's Minnesota Student Educational Loan Fund Program helps students who need assistance to pay for education beyond high school by providing long-term, low-interest educational loans. The office uses the proceeds of revenue bonds to issue loans to qualified students and uses the loan repayments to pay off the revenue bonds.

For fiscal years 2008 through 2010, the office received appropriations of about \$190 million per fiscal year to fund its operations and provide grants to eligible students. Table 1 summarizes the receipts and disbursements for the audit period July 1, 2007, through December 31, 2009.

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<sup>1</sup>The Office of Higher Education has reciprocity agreements with Wisconsin, North Dakota, South Dakota, and the Canadian province of Manitoba. In addition, the office has a limited reciprocity agreement with Iowa. Under these agreements, students attend public schools in neighboring states for lower tuition than the nonresident tuition rates.

<sup>2</sup>A 529 Plan is an education savings plan operated by a state or educational institution designed to help families set aside funds for future college costs. It is named after Section 529 of the Internal Revenue Code, which created these types of savings plans in 1996.

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**Table 1**  
**Office of Higher Education**  
**Receipts and Disbursements**  
**July 1, 2007 – December 31, 2009**

<b>Receipts<sup>1</sup></b>	<b>Fiscal Year</b>		
	<b>2008</b>	<b>2009</b>	<b>2010<sup>2</sup></b>
Transfers from Loan Account <sup>3</sup>	\$142,210,875	\$178,649,716	\$ 82,189,939
Tuition Reciprocity <sup>4</sup>	10,576,838	10,997,531	603,856
Federal Grants <sup>5</sup>	5,001,048	5,636,713	3,213,371
Other Receipts <sup>6</sup>	809,819	688,659	299,475
Total Receipts	<u>\$158,598,580</u>	<u>\$195,972,619</u>	<u>\$ 86,306,641</u>
<b>Disbursements</b>			
Grants	\$188,432,497	\$185,339,923	\$123,054,166
Transfers to Loan Account <sup>3</sup>	140,576,037	126,730,493	81,529,143
Other Disbursements <sup>7</sup>	16,403,738	15,211,840	7,148,155
Payroll	4,771,343	4,773,084	2,286,815
Professional/Technical Contracts	1,120,567	1,695,051	899,746
Supplies and Equipment	430,934	460,526	121,347
Space Rental	411,885	427,311	213,305
Computer and System Services	316,270	227,666	163,973
Travel	111,843	103,799	41,076
Total Disbursements	<u>\$352,575,114</u>	<u>\$334,969,693</u>	<u>\$215,457,726</u>

<sup>1</sup>The office also received appropriations of \$190,088,000 in 2008, \$190,254,000 in 2009, and \$186,503,000 in 2010.

<sup>2</sup>Our scope included fiscal year 2010 activity through December 31, 2009.

<sup>3</sup>The office used a local bank account for its student loan program. Through this account, it provided funds to its third party loan processor for new student loans and received funds from the third party loan processor from loan repayments. The office also used the local bank account to make payments on the bonds issued to provide loan funding. The transfers from the loan account are transfers from the local bank account to the state treasury, and the transfers to the loan account are transfers from the state treasury to the local bank account. The office transfers funds between these accounts to maximize its investment return.

<sup>4</sup>Minnesota has an agreement with Wisconsin that allows students to pay the tuition rate of the state they live in. At the end of each year, the two states settle up. This amount represents the payments received from Wisconsin.

<sup>5</sup>The office receives federal grants to administer a variety of federal programs.

<sup>6</sup>Other receipts included Paul Douglas loan program receipts, special program receipts, and other reimbursements.

<sup>7</sup>Other disbursements includes repairs, alterations, and maintenance, printing and advertising, communications, employee development, distributions of amounts collected, and other operating costs.

Source: Minnesota Accounting and Procurement System.

# Objectives, Scope, and Methodology

Our audit of the Office of Higher Education included the material revenues and expenditures for the period of July 1, 2007, through December 31, 2009, and focused on the following audit objectives:

- Were the office's internal controls adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements?
- For the items tested, did the office comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?
- Did the office resolve its two prior audit findings?<sup>3</sup>

To meet the audit objectives, we gained an understanding of the office's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, policies, and grant contract and loan 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 the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the office's internal controls.<sup>4</sup> We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the office's internal policies and procedures as evaluation criteria over compliance.

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<sup>3</sup>Minnesota Office of the Legislative Auditor, Financial Audit Division, [Report 04-22, Minnesota Higher Education Services Office](#), May 20, 2004.

<sup>4</sup>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.

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## Conclusions

The Office of Higher Education generally had adequate internal controls to ensure that it safeguarded assets, accurately paid employees and vendors in accordance with management's authorizations, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the office generally complied with finance-related legal requirements applicable to its financial operations. However, the office had some internal control and noncompliance deficiencies.

The office resolved the prior finding related to the college savings plan. It partially resolved the other prior finding related to state contracts; it did not resolve the part of the finding related to the proper recording of liability dates in the state's accounting system, and we repeat that issue in Finding 8.

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

# Findings and Recommendations

## **The Office of Higher Education did not identify, analyze, and document its internal controls related to its business operations.**

The office did not have a comprehensive approach to the design of its internal controls over compliance and business operations. The office had an increased likelihood of control deficiencies, because it did not clearly document and communicate to all staff its risks, control activities, and monitoring policies and procedures.

State policy stipulates that each agency head has the responsibility to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.<sup>5</sup> This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. This policy also requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action.

The office is aware of certain risks, has many control activities in place, and performs selected internal control monitoring functions. However, the office has not formally identified and analyzed the risks, designed its controls to address significant risks, or developed monitoring procedures to ensure the controls are in place and are effective to reduce the significant risks identified.

Findings 2 through 10 identify deficiencies in the office's internal control procedures and specific noncompliance with finance-related legal requirements that the office's internal control structure did not prevent or detect. If the office had a comprehensive internal control structure, it could have identified these deficiencies, assessed the degree of risk of these deficiencies, designed control procedures to address significant risks, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the office will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

## **Finding 1**

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<sup>5</sup>Department of Management and Budget Policy Number 0102-01.

*Recommendation*

- *The office should regularly review, clearly document, and communicate to staff its risks, control activities, and internal control monitoring functions for its key business processes.*

## Finding 2

### **The Office of Higher Education did not adequately restrict or monitor employee access to the state's accounting system.**

The office did not sufficiently restrict five employees' access to the state's accounting system and allowed these employees to perform incompatible activities. The five employees had the ability to encumber funds, enter purchase orders into the accounting system, receive the goods, and process payments. Further, these employees did not need this access to perform their normal job responsibilities. Generally, the functions of purchasing, receiving, and disbursing should be segregated to provide an appropriate level of control over expenditures.

Segregation of incompatible duties is a fundamental internal control designed to prevent or timely detect errors or irregularities from being processed in the accounting system. State policy requires that agencies limit system access to only those duties essential to a position's responsibilities.<sup>6</sup> If it is not feasible to segregate incompatible duties, the Department of Management and Budget requires them to develop and document their controls designed to mitigate the risk that errors or fraud will not be detected.<sup>7</sup> These controls typically include some analysis and review of transactions processed by the employees with inappropriate access.

*Recommendations*

- *The office should eliminate incompatible employee access to the state's accounting system or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*
- *The office should periodically review employees' security profiles to ensure that access is limited to the needs of assigned job responsibilities.*

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<sup>6</sup>Department of Management and Budget Policy Number 0102-01.

<sup>7</sup>Department of Management and Budget Policy Number 1101-07.

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**The Office of Higher Education did not retain audit documentation to support its compliance reviews.**

The office did not retain supporting documentation for any of its compliance reviews for the grant program, loan program, or tuition reciprocity after completing the reports. In addition, as of February 2010, 8 of the 14 reviews in progress we tested lacked documentation sufficient to satisfy the office's workpaper standards.<sup>8</sup> The documentation lacked evidence to support eligibility determinations and testing performed.

The office performed approximately 100 reviews each fiscal year as a primary control to ensure that postsecondary institutions complied with the office's eligibility criteria and other grant and loan requirements. The office also reviewed the Minnesota Student Educational Loan Fund Program's third-party loan processor's operations for compliance with loan requirements.

The office's workpaper standards for these reviews require that, "sufficient, competent, and relevant evidence be obtained and documented in workpapers to provide a factual basis for all findings, requirements, and recommendations used to obtain the evidence." The standard concludes that without sufficient and appropriate documentation, "the findings, requirements, and recommendations are unsupported and meaningless."

*Recommendation*

- *The office should retain all workpapers that support its internal control and compliance reviews, as required by its workpaper policy.*

**The Office of Higher Education did not always properly administer its professional/technical services contracts.**

The office 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 office's professional/technical contracts were for educational and instructional services. The office did not always follow the policies and procedures required by the Department of Administration.<sup>9</sup>

**Finding 3**

<sup>8</sup>Minnesota Office of Higher Education, 2008-09 Review Manual, Section D, Workpaper Standards.

<sup>9</sup>Department of Administration's Professional/Technical Services Contract Manual.

**Finding 4**

The office had the following weaknesses in the 15 professional/technical service contracts tested, which ranged from about \$2,850 to \$1,046,000:

- The office paid invoices that did not follow the payment schedules in the contract for three contracts.
- The office did not verify if vendors were suspended or debarred for any of the 15 contracts.
- The office did not complete the required performance evaluation report for one contract that exceeded \$50,000.<sup>10</sup>
- The office did not track payments for three contracts using the contract financial management system within the state's accounting system, as required by state policy.<sup>11</sup>
- The office allowed work to begin on one contract before it encumbered the funds. Statutes require agencies to encumber funds before incurring liabilities and, in instances when this is not done, to document and explain the reasons for the noncompliance.<sup>12</sup>
- The office incorrectly coded 4 of 15 contracts tested as professional/technical contracts rather than as grant contracts.

The Department of Administration developed contract policies to ensure that state agencies enter into and oversee contracts in accordance with statutory requirements and follow good management practices.

#### *Recommendation*

- *The Office should comply with all requirements established by statute and the Department of Administration for professional/technical service contracts.*

## **Finding 5**

**The Office of Higher Education did not properly account for certain receipts in the state's accounting system.**

The office did not properly account for funds returned by postsecondary institutions as a result of its compliance audits. As a result, it lost access to some grant resources and misspent some funds restricted by bond covenants.

The office recorded about \$88,000 to the wrong funds in the state's accounting system by miscoding 14 of 19 receipts tested, as explained in the following instances:

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<sup>10</sup>Minnesota Statutes 2009, Chapter 16C.08, subd. 4 (c).

<sup>11</sup>Department of Management and Budget Policy Number 0107-03.

<sup>12</sup>Minnesota Statutes 2009, Chapter 16C.08, subd. 2.

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- The office incorrectly coded four receipts of returned grant funds, totaling about \$45,780, as revenue instead of as expenditure refunds. As a result, the funds were no longer available for the grant program.
- The office coded a \$1,570 receipt for the Minnesota Student Educational Loan Fund Program to the State Grant Program and subsequently used the returned funds for that program. Because the Minnesota Student Educational Loan Fund Program's funds originated from bond proceeds, statutes restricted any use of returned funds to making additional student loans, paying the loan program's administrative expenses, repurchasing defaulted student loans, or paying expenses in connection with the issuance of revenue bonds.<sup>13</sup>
- The office recorded nine receipts, totaling \$40,570, to the incorrect grant program. The office miscoded five child care and work study grants as state grants, miscoded three state grants as child care grants, and miscoded one child care grant as a work study grant. Although these funds were not available for reuse within the grant programs, the receipts were not accurately accounted for in the state's accounting system.

State policy requires agencies to correctly record transactions in the state's accounting system.<sup>14</sup>

#### *Recommendations*

- *The office should ensure that it correctly codes receipts in the state's accounting system.*
- *The office should work with the Department of Management and Budget to determine whether it can recover the grant program funds from the General Fund and how to resolve the unallowable expenditure of dedicated bond funds.*

**The Office of Higher Education did not comply with its policy for employee educational reimbursements.**

## **Finding 6**

The office did not have adequate controls in place to ensure it complied with its policy for education reimbursements to its employees. As a result, five of eight employees tested received excess education benefits totaling \$11,825. The office's policy allowed it to pay for one job-related, postsecondary institution course per academic term. The office reimbursed one of the employees \$9,200 for

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<sup>13</sup>Minnesota Statutes 2009, 136A.1785.

<sup>14</sup>Department of Management and Budget Policy Number 0602-03.

more than one course during each of the three academic terms in a year. The office did not effectively monitor these tuition reimbursements to ensure that employees only received reimbursement for one course per academic term.

#### *Recommendations*

- *The office should develop controls to ensure that its payments of employee educational benefits comply with its policy. The controls could include a tracking system to monitor benefits provided.*
- *The office should review all of its employee tuition reimbursements and pursue recovery of ineligible education benefits it paid, including those identified in this finding.*

## **Finding 7**

### **The Office of Higher Education did not adequately protect not public data on individuals.**

The office recorded not public data about students who borrowed funds through the Minnesota Student Educational Loan Fund Program in unprotected fields in the state's accounting system, inadvertently making the data available to state employees and contractors with access to detailed information in certain tables in the state's warehouse.

Not public data includes any government data which is classified by statute, federal law, or temporary classification as confidential, private, nonpublic, or protected nonpublic.<sup>15</sup> In addition, state policy categorizes accounting system data as public and specifically instructs state agencies that names and certain information on individuals should not be included.<sup>16</sup>

The office recorded this information in the accounting system to allow it, and the state's collection agency, to better identify defaulted borrowers.

#### *Recommendation*

- *The office should work with the Department of Management and Budget to remove or protect student not public data included in the state's accounting system and only enter public data in the state's accounting system.*

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<sup>15</sup>Minnesota Statutes 2009, 13.355.

<sup>16</sup>Department of Management and Budget Policy Number 0803-01.

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**Prior Finding Not Resolved:**<sup>17</sup> The Office of Higher Education did not accurately record the liability date for some transactions in the state's accounting system.

The office did not always record the correct liability date for purchases of goods or services. The office did not assign the correct liability date for 42 of 62 expenditure transactions tested. State policy requires agencies to use the record date to identify the date that the state became liable for an expenditure, which is usually when the agency received the goods or services.<sup>18</sup> However, the office often used the invoice date as the record date rather than the date it received the goods or services. A correct record date is especially important for determining year-end liabilities in the state's financial statements. State policy requires agencies to correctly record transactions in the state's accounting system.<sup>19</sup>

## Finding 8

### *Recommendation*

- *The office should ensure that it correctly codes all financial activity in the state's accounting system.*

**The Office of Higher Education did not adequately ensure that employees complied with certain state travel requirements.**

## Finding 9

The office did not have controls to ensure that employees reported travel benefits they accrued because of state travel, as required by statute, and to ensure that it documented its advance authorization of out-of-state travel, as required by state policy. The office had the following weaknesses:

- One employee did not comply with legal provisions that prohibit employees from deriving certain benefits from state employment; the employee did not report frequent flyer miles earned for a state-paid 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.<sup>20</sup> The statute also requires that employees report the benefit to the agency paying for the travel within 90 days of receipt of the benefit. The employee was unaware of the statutory requirements.
- The office incurred out-of-state travel costs without appropriate or prior authorization in three instances. One office employee traveled to Wisconsin for a speaking engagement, but did not complete the out-of-

<sup>17</sup>Minnesota Office of the Legislative Auditor, Financial Audit Division, [Report 04-22, Minnesota Higher Education Services Office](#), May 20, 2004 (Finding 1).

<sup>18</sup>Department of Management and Budget Policy 0901-01.

<sup>19</sup>Department of Management and Budget Policy 0602-03.

<sup>20</sup>*Minnesota Statutes* 2009, 15.435.

state travel form or obtain prior approval. In addition, the office reimbursed at least one volunteer for a conference in Orlando and at least 14 other volunteers for a conference in Chicago without completing the out-of-state travel form. The office documented its advance approval for its own employee that attended the same conferences, but it did not document its approval for volunteers who attended. The state's expense reimbursement policy requires advance approval for out-of-state travel.<sup>21</sup>

*Recommendation*

- *The office should ensure that it documents its advance approval for all out-of-state travel.*

## Finding 10

### The Office of Higher Education did not always properly process its vendor payments.

The office did not always ensure that it encumbered funds at the time when it ordered the goods or services, properly approved vendor invoices for payment, or promptly paid invoices. The office had the following deficiencies in invoices we tested:

- The office did not encumber funds when it ordered the goods or services for 6 of 62 invoices tested. Statutes and state policies require that agencies encumber funds before incurring an obligation to ensure that sufficient funds will be available when payment is due.<sup>22</sup>
- The office did not have evidence of proper approval before making payment for 9 of 62 invoices tested. State policy requires agencies to approve invoices before making payments to ensure that they do not pay for goods or services not received.<sup>23</sup>
- The office paid 3 of 62 invoices from 34 to 138 days after the invoice date, instead of within 30 days of the invoice date. Statutes allow vendors to bill the state for interest on payments made later than 30 days after the invoice date.<sup>24</sup>

The office lacked controls to ensure that staff complied with these statutory and policy requirements.

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<sup>21</sup> Department of Management and Budget Policy PAY0021.

<sup>22</sup> Minnesota Statutes 2009, 16A.15.

<sup>23</sup> Department of Management and Budget Policy Number 0803-01.

<sup>24</sup> Minnesota Statutes 2009, 16A.124.

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*Recommendation*

- *The office should strengthen internal controls over the payment process to ensure that it encumbers funds before incurring an obligation, approves invoices before paying vendors, and pays vendors within 30 days of receiving the invoice.*

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April 19, 2010

Mr. James Nobles  
Legislative Auditor  
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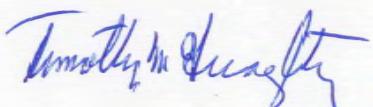
Dear Mr. Nobles:

With this letter the Minnesota Office of Higher Education (OHE) conveys our response to the audit report prepared by the Minnesota Office of the Legislative Auditor on selected OHE financial processes. We appreciate the professional manner in which the audit was conducted and believe that our financial operations and processes are and will be improved as a result of the audit.

Our office will work to ensure that the key findings and recommendations contained within the audit continue to be addressed responsibly.

Thank you for the positive and productive audit process.

Sincerely,

A handwritten signature in blue ink that reads "Timothy M. Geraghty".

Timothy M Geraghty  
OHE, Chief Financial Officer

## **Finding 1**

**The Office of Higher Education did not identify, analyze, and document its internal controls related to its business operations.**

### *Recommendation*

*The office should regularly review, clearly document, and communicate to staff its risks, control activities, and internal control monitoring functions for its key business processes.*

### **OHE response to Finding 1**

Although the Office has documented internal controls relating to the processing of cash receipts, payroll, and expenditures of federal funds, we will now focus on identification and written documentation of internal controls and business processes. The Office will work with the Minnesota Office of Management and Budget for additional guidance in preparing documentation in accordance with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework. Duties will be added to the audit supervisor position for the implementation and continued monitoring and communicating of the risks and internal controls.

Tim Geraghty, Chief Financial Officer, is responsible for implementation of this recommendation and will have completed a Control Environment Self Assessment by July of 2011.

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## **Finding 2**

**The Office of Higher Education did not adequately restrict or monitor employee access to the state's accounting system.**

### *Recommendations*

*The office should eliminate incompatible employee access to the state's accounting system or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*

*The office should periodically review employees' security profiles to ensure that access is limited to the needs of assigned job responsibilities.*

### **OHE response to Finding 2**

The Office agrees with the recommendation and will work with the Minnesota Office of Budget and Management (MMB) to review/monitor access to the state accounting system and work to mitigate any incompatible access issues.

Tim Geraghty, Chief Financial Officer, is responsible for implementation of this recommendation and it will be implemented by July 1, 2010.

### **Finding 3**

**The Office of Higher Education did not retain audit documentation to support its compliance reviews.**

*Recommendation*

*The office should retain all workpapers that support its internal control and compliance reviews, as required by its workpaper policy.*

### **OHE response to Finding 3**

The Office is working on this issue and is developing in conjunction with the Office of Enterprise Technology (OET) a system to scan and/or electronically store documentation related to OHE program compliance reviews at OET on the Electronic Document Management System system.

Tim Medd, Audit Manager, is responsible for the implementation and this recommendation and it will be implemented by July 1, 2010.

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### **Finding 4**

**The Office of Higher Education did not always properly administer its professional/technical services contracts.**

*Recommendation*

*The Office should comply with all requirements established by statute and the Department of Administration for professional/technical service contracts.*

### **OHE response to Finding 4**

The Office will review its current contracting and contracting payment procedures and modify them to comply with the Department of Administration requirements.

Tim Geraghty, OHE CFO is responsible for implementation of this recommendation and it will be accomplished by July 1, 2010.

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## **Finding 5**

**The Office of Higher Education did not properly account for certain receipts in the state's accounting system.**

*Recommendations*

*The office should ensure that it correctly codes receipts in the state's accounting system.*

*The office should work with the Department of Management and Budget to determine whether it can recover the grant program funds from the General Fund and how to resolve the unallowable expenditure of dedicated bond funds.*

## **OHE response to Finding 5**

The Office is reviewing current procedures for depositing returned program funds and will modify procedures to minimize the risk of depositing returned program funds to the incorrect account. The Office will also consult with MMB to recover SELF loan bond funds that were deposited incorrectly.

Danette Jerry, Financial Services Manager, is responsible for implementation of this recommendation and it will be completed by July 1, 2010.

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## **Finding 6**

**The Office of Higher Education did not comply with its policy for employee educational reimbursements.**

*Recommendations*

*The office should develop controls to ensure that its payments of employee educational benefits comply with its policy. The controls could include a tracking system to monitor benefits provided.*

*The office should review all of its employee tuition reimbursements and pursue recovery of ineligible education benefits it paid, including those identified in this finding.*

## **OHE response to Finding 6**

Upon discovery of several educational reimbursement payments made to employees not in compliance with the Office educational reimbursement policy; management reviewed and modified the policy and procedures to ensure employees would only be reimbursed in accordance with the Office policy. The revised policy now requires the approval of the Chief Financial Officer and all payments will be processed through SEMA4 to the employee and not to the educational institution. This will allow financial services to run crystal reports to monitor total payments to employees.

The Office does not concur with the recommendation to pursue recovery of prior payments since the previous OHE director approved the educational reimbursements

The Office considers this finding closed.

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## **Finding 7**

### **The Office of Higher Education did not adequately protect non--public data on individuals.**

#### *Recommendation*

*The office should work with the Department of Management and Budget to remove or protect student non-public data included in the state's accounting system and only enter public data in the state's accounting system.*

#### **OHE response to Finding 7**

The Office concurs with this finding and has instructed all financial services staff who process payments in the MAPS system to not enter non-public data in the system when making payments.

The Office considers this finding implemented and closed.

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## **Finding 8**

### **Prior Finding Not Resolved:<sup>1</sup> The Office of Higher Education did not accurately record the liability date for some transactions in the state's accounting system.**

#### *Recommendation*

*The office should ensure that it correctly codes all financial activity in the state's accounting system.*

#### **OHE response to Finding 8**

The Office concurs with this finding. The Office will review the appropriate procedures and policies with accounting staff and implement periodic testing to verify the correct liability date is

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<sup>1</sup> Minnesota Office of the Legislative Auditor, Financial Audit Division, [Report 04-22, Minnesota Higher Education Services Office](#), May 20, 2004 (Finding 1).

being recorded. Danette Jerry, OHE Financial Services Manager, is responsible for implementation of this recommendation and will be completed by July 1, 2010.

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## **Finding 9**

**The Office of Higher Education did not adequately ensure that employees complied with certain state travel requirements.**

*Recommendation*

*The office should ensure that it documents its advance approval for all out-of-state travel.*

### **OHE response to Finding 9**

The Office concurs with this finding. The Office will review the current state procedures and policies with accounting and payroll staff and set up an internal process to further monitor the compliance of state policies. Office staff will be periodically updated with current state travel requirements.

Danette Jerry, Financial Services Manager, is responsible for implementation of this recommendation and it will be completed by July 1, 2010.

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## **Finding 10**

**The Office of Higher Education did not always properly process its vendor payments.**

*Recommendation*

*The office should strengthen internal controls over the payment process to ensure that it encumbers funds before incurring an obligation, approves invoices before paying vendors, and pays vendors within 30 days of receiving the invoice.*

### **OHE response to Finding 10**

The Office concurs with this finding. The Office will review the appropriate procedures and policies with accounting staff and implement periodic testing to verify the correct record date is recorded and payments are processed within 30 days. Current internal processes will also be reviewed to expedite the payment process.

Danette Jerry, Financial Services Manager, is responsible for implementation of this recommendation and it will be completed by July 1, 2010.