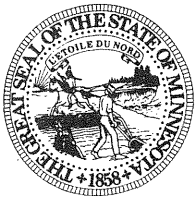


**MINNESOTA STATE ACADEMY FOR THE BLIND
AND MINNESOTA STATE ACADEMY FOR THE DEAF
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE FISCAL YEARS ENDED JUNE 30, 1987**

OCTOBER 1988



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Wade Karli, Residential Academy Administrator
Minnesota State Academy for the Blind
Minnesota State Academy for the Deaf

Ms. Marjorie Johnson, Chair
State Board of Education

Audit Scope

We have completed a financial and compliance audit of the Minnesota State Academy for the Blind and the Minnesota State Academy for the Deaf (Academies) for the three fiscal years ended June 30, 1987. Section I provides a brief description of the Academies' activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on June 3, 1988.

The objectives of the audit were to:

- study and evaluate the internal control systems over receipts, expenditures, assets, and liabilities;
- verify that financial transactions were made in accordance with applicable laws, regulations and policies, including Minn. Stat. Chapter 128A, and other finance-related laws and regulations;
- evaluate the recording and reporting of financial transactions on the statewide accounting (SWA) system, the fixed asset record management system (FARMS), and the social welfare accounts; and
- determine the status of prior audit recommendations.

Management Responsibilities

The management of the Academies is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management makes estimates and judgments to assess the expected benefits and related costs of control procedures. The objective of internal controls are to provide management with reasonable, but not

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absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations and recorded properly.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system of future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Academies is also responsible for the agency's compliance with laws and regulations. We selected and tested transactions and records from the programs administered by the Academies in order to obtain reasonable assurance that the Academies had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Audit Techniques

During our audit, we employed a variety of audit techniques. These included, but were not limited to, auditor observation, interviews with agency staff, analytical reviews to identify unusual transactions or trends, and the examination of documentation supporting a representative number of transactions. Random sampling techniques were used to assure that representative samples of transactions were chosen. However, the use of random sampling did not prohibit us from reviewing additional transactions which may have come to our attention during the audit.

Conclusions

In our opinion, except for the issues raised in Section II, findings 1-5, the system of internal accounting control of the Academies in effect as of June 3, 1988, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, for the three year period ended June 30, 1987, the Academies administered their programs in compliance, in all material respects, with applicable finance-related laws and regulations.

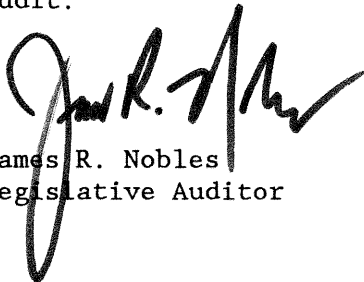
In our opinion, except for the issue raised in Section II, finding 1, for the three years ended June 30, 1987, the Academies properly recorded, in all material respects, their financial transactions on the statewide accounting (SWA) system and the fixed asset record management system (FARMS), and the subsidiary records of the social welfare accounts.

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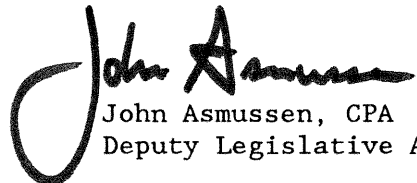
This audit report includes the findings developed during this audit and prior audit findings which have not been resolved. Prior audit findings repeated in this report are identified as "Prior Finding Not resolved" or "Prior Finding Partially Resolved."

The recommendations included in this audit report are presented to assist the Academies in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Academies' progress on resolving these findings. A summary of the progress made on all audit recommendations discussed in our last audit report covering the year ended June 30, 1984, dated May 14, 1985, is shown in Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation."

We thank the staff of the Academies for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 9, 1988

MINNESOTA STATE ACADEMY FOR THE BLIND
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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Colleen Berg Skillings	Auditor-in-Charge
Sandra Linn	Audit Staff
Rhonda Warner	Audit Staff

EXIT CONFERENCE

The findings and recommendations included in this report were discussed with the following staff of the Academies at the Exit Conference held on June 3, 1988:

Wade Karli	Residential School Administrator
Colin McAdam	Assistant Superintendent
Tom Schoenbauer	Senior Accounting Officer

MINNESOTA STATE ACADEMY FOR THE BLIND
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I. INTRODUCTION

The Minnesota State Academies for the Deaf and the Blind (Academies) are located on separate campuses in Faribault, and have been operating for 125 years. The Academies are under the authority of the Minnesota State Board of Education. Currently, the Residential Academy Administrator, Mr. Wade Karli, manages and operates the programs for the Academies. The residential academy administrator reports to the State Board of Education. The Department of Education assists the Academies in administrative areas such as accounting and processing transactions through the statewide accounting (SWA) system.

The Academies provide educational services in a residential setting to youths aged 4 to 21 who cannot secure adequate educational programs in their school districts of residence. The administration of the Academies provides highly individualized educational programs to 200 students. Programs include educational basics, a broad range of support services and peer reinforcement.

General operations of the Academies are funded by state appropriations. The Academies recover a portion of this support by charging the school district of a student's residence for tuition, which is deposited as non-dedicated revenue in the General Fund. For the 1986-1987 school year, non-dedicated receipts from tuition charged to the school districts totaled \$540,000. The Academies also receive federal grants for the child nutrition and socialization skills programs. During fiscal year 1987, the Academies incurred expenditures totaling \$6 million, of which salaries accounted for 90 percent. The Academies employ 193.5 staff to administer the various programs.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR AUDIT FINDING NOT RESOLVED. Fixed asset and consumable inventory procedures need improvement.

The original acquisition cost of the Academies' assets totals \$1 million as reported on the state's fixed asset record management system (FARMS). However, the fixed assets are overstated because retired assets have not been deleted from the system. The last complete physical inventory was conducted in 1980. In 1985, the Academies held an auction to sell surplus assets. The auction was held under the direction of the Department of Administration's Inventory Management Division. However, no physical inventory counts were completed at this time and no adjustments were made to the fixed asset list on FARMS. Currently, the Academies' storeroom supervisor conducts spotchecks of fixed assets monthly; however, the results are not compared to the FARMS records.

The inventory management division requires state agencies to complete physical inventories of fixed assets and reconcile any discrepancies at least every other year. Spotchecks are required to validate the fixed asset listing and to ensure that assets are secure. Inventory records should be accurate and inventory procedures concerning fixed assets should be followed. If spotchecks include a sample size to adequately evaluate all areas of the agency's asset listing within the two year period, this is considered a complete physical inventory. Therefore, the Academies should update the FARMS records to reflect the current assets on hand.

The duties of purchasing, receiving, record keeping, and custody of maintenance inventories are performed by the inventory custodian. Generally, these duties should be performed by separate individuals. Without a proper separation of duties, errors or omissions in the inventory records could occur or be perpetrated and not be detected. Additional procedures should be implemented to compensate for the concentration of duties. A person independent of inventory duties could spotcheck the maintenance inventory records on a periodic basis.

RECOMMENDATIONS

- The Academies should conduct a physical inventory of its assets and perform periodic spotchecks to maintain the accuracy of the FARMS records.
- Spotchecks of maintenance inventory records should be performed by someone independent of the inventory duties.

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2. The Academies are not properly documenting prior authorization for all purchase orders.

The authorized signature documenting prior approval is not shown on some purchase order forms. Typically, the business manager reviews and approves of purchase orders in writing. However, in certain instances purchases are authorized by telephone and not documented subsequently on the purchase orders. Disbursement testing showed that 20 of the 67 sample items did not have the proper written authorization by the business manager. The majority of sample items without written authorization were under \$100, although one item was a \$2,801.75 expenditure for fuel oil.

The Department of Finance Operating Policy and Procedure 06:04:04 states that the requesting person should sign the purchase order and forward the purchase order to the accounting unit. The accounting unit should review the purchase order and verify that sufficient funds are encumbered and sign the purchase order for approval. Documentation to properly support purchases is essential in order to provide adequate review and approval of purchases.

The Academies should obtain the business manager's approval for large dollar purchases and sensitive items. Approval could be obtained by having the requesting person forward the purchase order to the business manager. The business manager should review and authorize the purchase order to ensure propriety of the order and to verify the adequacy of resources. However, telephone approval and documentation of the date and name of the authorizing individual is adequate for small dollar purchases.

RECOMMENDATION

- The Academies should obtain and document the business manager's approval of purchases.

3. The Academies controls over imprest cash accounts need improvement.

The Academies maintain imprest cash accounts for social welfare and current expense activities. These accounts were authorized by the Department of Finance as required by state guidelines. However, the financial transactions for some of these accounts are not periodically reconciled to the original amounts authorized by the Department of Finance. In addition, the use of employee signature stamps to authorize expenditures are not restricted to a limited number of staff.

Weaknesses were found in the administration of certain imprest cash accounts. These accounts are as follows:

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<u>Type</u>	<u>Authorized Amount</u>
Social Welfare Deaf Academy Checking	\$1,100
Social Welfare Blind Academy Checking	825
Social Welfare Change Fund	1,075
Current Expense Deaf Academy Checking	1,000
Current Expense Blind Academy Checking	1,675

The imprest cash social welfare accounts are maintained for resident withdrawals and expenditures from their personal funds. The current expense account provides funding for programs and activities which promote academy students interaction with the public.

The social welfare imprest cash account for the Blind Academy and the current expense accounts for both Academies are not reconciled to the authorized amounts. Our review showed that certain balances were over the authorized amounts. The overages for the Blind Academy accounts were as follows: \$91.20--social welfare account and \$42.15--current expense account. Cash counts are also not completed for the change funds at the Academies except for the money change machines. Because reconciliations of the financial activities in these accounts have not been performed, shortages and overages have also not been documented by the Academies. The Department of Finance operating policy and procedure 06:06:09 provides that imprest accounts should be reconciled and any differences documented. The imprest cash accounts should be reconciled periodically to the authorized amounts and any differences in checking account and cash count reconciliations should be recorded in a cash short and over account. A reconciliation would ensure a proper reimbursement for the imprest account. All shortages and overages should also be documented. Someone independent of the petty cash custodian should perform cash count annually.

Signature stamps are used to sign imprest cash checks for the social welfare and the current expense accounts. Some checks are signed for payment by using the residential academy administrator's signature stamp. However, the signature stamp is not limited to a few authorized employees. The stamp is kept in an employee's desk drawer and available for use by several employees not involved with the imprest cash accounts. Inadequate safeguarding of the signature stamp allows the opportunity for misuse and unauthorized expenditures to occur. Signature stamp use should be limited to a few individuals or the Academies should use hand written signatures on imprest cash checks.

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RECOMMENDATIONS

- Imprest cash accounts should be reconciled to the authorized amounts periodically. Cash counts should be completed by someone independent of the petty cash custodian and any differences documented.
- Access to the Academies' signature stamps should be restricted to only a few employees or as an alternative require hand written signatures in authorizing imprest account checks.

4. Duties are not adequately separated in the processing of tuition receipts.

The Academies charge local school districts annually for students' tuition. The amount billed is based on the number of students and the days that the students are enrolled. At the Academy for the Deaf, the residential academy administrator's secretary calculates the tuition due, bills the districts, and receives the tuition payments. The amounts billed and collected are not reviewed or verified by another staff member.

Whenever one person has complete control over an entire process or transaction cycle, an inadequate separation of duties exists. Another employee of the Academies should be involved in the billing or receipt functions to decrease the likelihood of undetected errors or irregularities. To improve controls, an independent employee should verify the amounts billed and reconcile the billings to cash deposited.

RECOMMENDATION

- Another employee should verify the tuition billings and reconcile receipts deposited for the Academy for the Deaf.

5. Proper gift acceptance procedures are not followed by the Academies.

The Academies received \$45,000 in gifts in 1987. Many donations are small cash amounts of \$25 or less and are unrestricted as to use. However, the Academies frequently receive cash donations of \$100 or more from various community organizations for the Braille Library. In addition, in 1986 and 1987 the Academies received three large bequests of \$5,000, \$7,000, and \$23,000. The Academy staff processed all of these gifts, except for the \$5,000 bequest, through the State Treasury without following the gift acceptance procedures required by state statutes and the Department of Finance.

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Minn. Stat. Section 7.09 requires that agencies receive approval from the Commissioner of Finance and the State Treasurer before accepting a gift. The procedures are outlined in the Department of Finance Operating Policy and Procedure 06:06:07 which states that the approvals of the Commissioner of Finance and the State Treasurer are necessary for the acceptance of any gift valued at \$100 or more. The approval is required to ensure that the gift is beneficial to the state and that any restrictions are not contrary to state law or regulations. To comply with state regulations, the Academies should obtain the proper approvals for all gifts.

RECOMMENDATION

- The Academies should follow state regulations in accepting gifts.

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III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

Fixed asset and consumable inventory procedures need improvement.

1. Regular spotcheck procedures of all areas of fixed assets should be implemented at the residential schools. A complete physical inventory should be conducted if spotchecks reveal a low level of accuracy of the state's inventory records.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

2. Spot checks of consumable inventory records should be performed by someone independent of the inventory duties.

RECOMMENDATION NOT IMPLEMENTED. See current finding #1.

3. The quarterly consumable inventory reports should be prepared in accordance with instructions from the inventory management division, and properly show receipts and issuances of inventory for the quarter.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. Quarterly consumable inventory reports are prepared and submitted to the inventory management division. However, the consumable inventory records do not adequately reflect the total value of goods currently on hand and goods issued during the period. Many older items do not have a unit value; therefore, the value of the inventory on hand is estimated and inaccurate for reporting purposes. An accurate valuation system based on actual costs should be developed for the current inventory.

4. Issuances of consumable inventories should be controlled by requisitions signed by both the storekeeper and the person receiving the goods.

RECOMMENDATION IMPLEMENTED. Since May 1988, the inventory custodian has established procedures where both the storekeeper and the person receiving the goods sign requisitions when consumable inventories are issued.

5. Security of the storeroom should be improved by installing new locks and keeping the area locked at all times. Only authorized personnel should have possession of keys.

RECOMMENDATION IMPLEMENTED. Since May 1985, the Academies installed new locks on the storerooms and only authorized personnel have access to the storerooms.

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Payments received from school districts for tuition are not deposited timely.

6. Faribault Residential Schools should deposit all receipts directly to the state depository in Faribault.

RECOMMENDATION IMPLEMENTED. Since July 1985, the Academies have been depositing receipts directly to the state depository.

There is no current written agreement for vending machine services at the Minnesota School For The Deaf.

7. A written agreement should be obtained between the vending company and the Faribault Residential Schools for the current year. In the future the agreements should be obtained prior to the contract period.

RECOMMENDATION IMPLEMENTED. The Academies obtained a contract in May 1985, for the year of the recommendation and the contract has been updated each year at this time. A current contract is on file for 1988.

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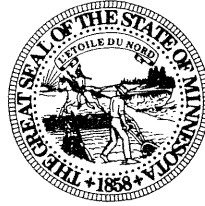
MINNESOTA STATE ACADEMY FOR THE BLIND

AND

STATE BOARD OF EDUCATION

P.O. BOX 68
FARIBAULT, MINNESOTA 55021
PHONE: 507/332-3226

RESOURCE CENTERS



MINNESOTA STATE ACADEMY FOR THE DEAF

P.O. BOX 308
FARIBAULT, MINNESOTA 55021
PHONE: 507/332-3363

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ALAN ZDON
TED SUSS, ADM. TO STATE BD.

September 9, 1988

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

Enclosed are the Minnesota State Residential Academies responses to the audit report for the years ended June 30, 1985, 1986, and 1987.

We thank the office of the Legislative Auditor for the fine manner in which the audit was conducted. Measures will be enacted immediately to achieve the recommendations.

If we may be of further assistance, please do not hesitate to call.

Respectfully,

A handwritten signature in cursive script, appearing to read "Wade M. Karli".

Wade M. Karli
Administrator

av

MINNESOTA STATE ACADEMY FOR THE BLIND
MINNESOTA STATE ACADEMY FOR THE DEAF

Response to current findings and recommendations of the audit report for the years ended June 1985, 1986 and 1987.

CURRENT FINDING 1: PRIOR AUDIT FINDING NOT RESOLVED. Fixed asset and consumable inventory procedures need improvement.

Recommendation #1: The Academies should conduct a physical inventory of its assets and perform periodic spotchecks to maintain the accuracy of the FARMS records.

Response to Recommendation #1: The Stores Clerk Senior is in the process of conducting a Fixed Asset Inventory and will be finished by October 1, 1988. In doing so, all assets with a value of five hundred dollars (\$500) or less, will be removed from the system. The Stores Clerk will perform periodic spotchecks on a bi-monthly basis to maintain the accuracy of the FARMS system as of October 1, 1988.

Recommendation #2: Spotchecks of maintenance inventory records should be performed by someone independent of the inventory duties.

Response to Recommendation #2: The Building Maintenance Supervisor will be performing the spotchecks of the maintenance inventory on a bi-monthly basis.

CURRENT FINDING 2: The Academies are not properly documenting prior authorization for all purchase orders.

Recommendation #1: The Academies should obtain and document the business manager's approval of purchases.

Response to Recommendation #1: All purchase orders will either have the approval of the Business Manager or documentation of the date and name of the authorized individual when telephone approval is given for small dollar purchases as of September, 1988.

CURRENT FINDING 3: The Academies controls over imprest cash accounts need improvement.

Recommendation #1: Imprest cash accounts should be reconciled to the authorized amounts periodically. Cash counts should be completed by someone independent of the petty cash custodian and any differences documented.

Response to Recommendation #1: Imprest cash accounts will be reconciled monthly to the authorized amounts and any differences in checking account and cash count reconciliations will be recorded as cash short or over account. The Business Manager will perform cash counts annually in May to coincide with the end of school on all imprest cash accounts. This will become effective as of September 1, 1988.

Recommendations #2: Access to the Academies' signature stamps should be restricted to only a few employees or as an alternative require hand written signatures in authorizing imprest account checks.

Response to Recommendation #2: The Social Welfare checking accounts will be authorized by the hand written signature of the Assistant Superintendent. The Current Expense checking account will be authorized by the hand written signature of the Business Manager. The Student Payroll checking account will be authorized by use of the signature stamp which will be restricted to the use of the Administrator's secretary only. All of the above will be implemented as of September, 1988.

CURRENT FINDING 4: Duties are not adequately separated in the processing of tuition receipts.

Recommendation #1: Another employee should verify the tuition billings and reconcile receipts deposited for the Academy for the Deaf.

Response to Recommendation #1: The Business Manager will verify the tuition billings and reconcile receipts deposited for the Academies effective as of September 1, 1988.

CURRENT FINDING 5: Proper gift acceptance procedures are not followed by the Academies.

Recommendation #1: The Academies should follow state regulations in accepting gifts.

Response to Recommendation #1: The Business Manager will obtain the proper approval from the Commissioner of Finance and the State Treasurer for all gifts valued at one hundred dollars (\$100) or more effective as of September, 1988.