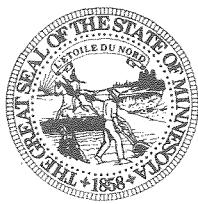


**STATE BOARD OF VOCATIONAL
TECHNICAL EDUCATION
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

MARCH 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Vice-Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Joseph P. Graba, State Director
State Board of Vocational Technical Education

Audit Scope

We have completed a financial and compliance audit of the State Board of Vocational Technical Education for the three years ended June 30, 1988. Section I provides a brief description of the department's 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. Our audit procedures are further described in the audit techniques section of this report. Fieldwork was completed January 27, 1989.

We have issued separate management letters, dated February 17, 1987 and February 18, 1988, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1986 and 1987. The management letters contained one recommendation for fiscal year 1986 and one recommendation for fiscal year 1987.

The objectives of the audit were to:

- study and evaluate agency internal controls over assets, liabilities, revenues, and expenditures;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including finance-related laws and regulations, and federal laws and regulations pertaining to the federal programs included in the Single Audit scope; and
- verify that financial transactions were properly recorded on the statewide accounting system (SWA) and appropriately included in the State of Minnesota's Comprehensive Annual Financial Report and supplemental Statements of Expenditures for federal programs included in the Single Audit scope:

<u>CFDA No.</u>	<u>Program</u>
84.048	Vocational Education Basic Grants to States
17.250	Job Training Partnership Act

Senator Randolph W. Peterson, Vice-Chairman
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State Board of Vocational Technical Education
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Management Responsibilities

The management of the State Board of Vocational Technical Education is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are 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 authorization and recorded properly.

Because of 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 to 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 State Board of Vocational Technical Education is also responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that the State Board of Vocational Technical Education had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

The Statewide Financial and Single Audits for the three years ended June 30, 1988, covered major federal programs as listed above and material state grants and aids including Post Secondary Vocational Aids and Construction Aids. The departmental audit completed this year also covered the three years ended June 30, 1988, and supplements the annual Statewide Financial and Single Audits. Departmental audit work was specifically designed to review other administrative areas, such as payroll, contractual services, and travel.

Status of Prior Audit Findings

The recommendation from the 1986 Statewide Financial Audit was resolved as discussed in the 1987 Management Letter. The status of the recommendation from the fiscal year 1987 Statewide Financial Audit was reviewed this year. We concur with the corrective action taken by the department relative to this finding and consider the recommendation to be implemented.

Conclusions


In our opinion, except for the issue addressed in Section II, finding #2, the State Board of Vocational Technical Education's system of internal accounting control in effect on January 27, 1989, 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 authorization.


In our opinion, for the three years ended June 30, 1988, the financial transactions of the State Board of Vocational Technical Education were properly recorded in the statewide accounting system, and such transactions were appropriately recorded in the State of Minnesota's Comprehensive Annual Financial Report and supplemental Statements of Expenditures for federal programs.

In our opinion, except for the issue addressed in Section II, finding #1, and except for the issue raised in our management letter dated February 17, 1987, finding #1, for the three years ended June 30, 1988, the State Board of Vocational Technical Education administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

The recommendations included in this report are presented to assist you in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the department's progress on implementing these recommendations.

We would like to thank the State Board of Vocational Technical Education staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 27, 1989

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Michael Hassing	Auditor-in-Charge
Jodi Adams	Auditor
Sonya Hill	Auditor

EXIT CONFERENCE

An exit conference was held with the following staff from the State Board of Vocational Technical Education on February 13, 1989:

Joe Graba	State Director
Mel Johnson	Assistant Director
Will Dague	Fiscal Services
Teri Naughton	Fiscal Services
Jerry Schmehl	Institution Support
Ann Wood	Data Specialist

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

I. INTRODUCTION

Minnesota maintains a post-secondary vocational system including 30 Technical Institutes and adult extension programs in about 400 school districts. The system is designed to meet current and future employment needs of agriculture, industry, and business.

Before January 1, 1984, the State Board of Education/Board for Vocational Education was responsible for all decisions relating to the vocational system. The Department of Education, acting under the authority of the State Commissioner of Education, conducted all management activities of the vocational system. The Vocational Division of the Department of Education maintained the responsibility for administering the vocational programs.

The 1983 Legislature adopted major management responsibility changes in the post-secondary vocational system. Laws of Minnesota, 1983, Chapter 258, established a separate State Board of Vocational Technical Education and removed the former Division of Vocational Technical Education from the Department of Education. A State Director was given responsibility for supervising the Board of Vocational Technical Education, and the Board was given separate state agency status. Beginning January 1, 1984, the State Board of Vocational Technical Education was assigned the responsibility for receiving and disbursing federal vocational funds. The Department of Education provided various administrative and accounting services to the Board of Vocational Technical Education during the transition period. Currently, the Board is operating its administrative services independently.

Joseph P. Graba, State Director, is the administrative head of the State Board of Vocational Technical Education.

The State Board of Vocational Technical Education's financial activities are funded mainly from state appropriations and federal grants. Board expenditures for the year ended June 30, 1988 are summarized below:

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Grants & Aids	\$149,625,482	\$15,452,222	\$8,613,457	\$173,690,851
Personal Services	3,032,340	1,264,581	7,881	4,304,802
Other Administrative				
Disbursements	928,609	624,177	16,996	1,569,782
Contractual Services	204,278	53,750	2,798	260,826
Travel Expenses	270,136	90,115	131	360,382
Supplies & Equipment	<u>460,235</u>	<u>217,246</u>	<u>1,215</u>	<u>678,696</u>
Total Expenditures	<u>\$154,521,080</u>	<u>\$17,702,091</u>	<u>\$8,642,168</u>	<u>\$180,865,339</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Processing procedures are inadequate to ensure that payments for Repair and Replacement projects are accurate and equitable.

The State Board of Vocational Technical Education (Board) administers the Post-Secondary Vocational Education State Aids Program. The Board set aside \$3,298,417 for Repair and Replacement (R&R) aid in fiscal year 1988. Aid was split between regular program and project aids. Regular program funds are allocated to the Technical Institutes (TI's) based on \$.18 per square foot of space plus any assessments. As part of the regular R&R aid, the TI's are to spend \$1,000 per 100,000 square feet for future plant operation expenditure reduction projects. The remaining funds are used for project aid. TI's submit project proposals to the Board which include budgeted costs and estimated completion dates. TI's are to be paid by the Board for approved projects one month after completion. Midway through the fiscal year, each TI is required to submit a Certification of Project Completion Report. This report should list all Board approved projects, including actual or estimated costs and completion dates. Costs of the expenditure reduction projects are also to be shown.

The Board does not have a clearly defined policy describing the aid distribution process. The lack of a uniform distribution system has resulted in various aid payment methods. This system does not provide equitable treatment to the TI's. Board personnel stated that the intent of this program is to pay project aid based on the actual cost of a completed project. Aid should also not exceed the amount approved by the Board. However, aid is paid based on a payment schedule which only includes estimated costs and completion dates. The schedule is not updated to reflect changes in projects, actual costs, or final completion dates. This results in some payments being made before project completion and not based on actual costs. Furthermore, the Board does not require the TI's to submit a detailed cost analysis of the projects. The Board does not verify the actual costs of a project. The completion reports submitted by the TI's have a minimal impact in this process. The reports are incomplete and only include the total cost. TI personnel do not sign the reports. TI's are not required to submit final reports when the projects are completed. The TI's also do not report expenditure reduction projects correctly. The following specific errors were caused under the current system. These errors related to the 1988 project aid payments reviewed:

- two TI's were paid \$6,151 more than the actual costs of the projects;
- sixteen projects were reimbursed before they were completed;
- four plant operation expenditure reduction reports were incomplete;

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- five expenditure reduction reports incorrectly listed projects funded by project aid instead of regular aid; and
- eight projects approved by the Board were changed and not reflected on the project payment schedule.

The Board is responsible to maintain an equitable and accurate aid distribution system. We believe for the program to operate effectively, uniform procedures need to be developed and followed.

RECOMMENDATIONS

- The Board should develop a systematic and equitable method of distributing aid for Repair and Replacement Projects.
- The Board should review 1988 aid payments to determine if any adjustments are necessary.

2. Employees are not repaying imprest cash fund travel advances on a timely basis.

The Board maintains a \$3,000 imprest cash account. The main purpose of this account is to provide travel advances to employees upon request. The employee requests the advance using the standard employee expense report. The Board has an internal policy which requires the employee to file an expense report for all costs incurred on the trip within a week after the trip is completed. The Department of Finance requires travel advances to be repaid within 30 days of the trip. The Board is not in compliance with the Finance policy.

The activity of the imprest cash account was reviewed for the period June to December 1988. Employee expense reports were filed on a timely basis; however, repayments to the imprest cash fund were not timely. Only 3 of 15 sample travel advances were repaid within 30 days of the travel period. Of those remaining, 8 were repaid between 30 and 60 days of the trip's completion, while 4 were repaid after 61 days following the end of the trip. Those advances withheld the longest represented 41 percent of the total authorized amount of \$3,000. If the account is not repaid on a timely basis, funds are not available for other individuals who may need travel advances to carry out state business.

RECOMMENDATION

- All imprest cash fund advances should be repaid within 30 days, in accordance with the Department of Finance policy.



Minnesota Technical Institute System

State Board of Vocational Technical Education

Capitol Square Building 550 Cedar Street St. Paul, MN 55101

Campus Locations

ALBERT LEA
ALEXANDRIA
ANOKA
AUSTIN
BEMIDJI
BRainerd
BROOKLYN PARK
CANBY
DETROIT LAKES
DULUTH
EAST GRAND FORKS
EDEN PRAIRIE
EVELETH
FARIBAULT
GRANITE FALLS
HIBBING
HUTCHINSON
JACKSON
MANKATO
MINNEAPOLIS
MOORHEAD
PINE CITY
PIPESTONE
RED WING
ROCHESTER
ROSEMOUNT
ST. CLOUD
ST. PAUL
STAPLES
THIEF RIVER FALLS
WADENA
WHITE BEAR LAKE
WILLMAR
WINONA

March 10, 1989

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

Dear Mr. Nobles:

This letter is in response to the management letter received in regard to the financial and compliance audit performed on the State Board of Vocational Technical Education for a three year period ending June 30, 1988.

The following are responses to the recommendations:

1) Processing procedures are inadequate to ensure that payments for Repair and Replacement projects are accurate and equitable.

- a. The Board should develop a systematic and equitable method of distributing aid for Repair and Replacement Projects.

Response: Jerry Schmehl, Facilities Manager, in cooperation with Melvin Johnson, Assistant Director of Planning, Research and Administrative Services, will develop and recommend new policy to be adopted by the State Board. This policy will address the recommendations of the auditors and provide for the equal treatment of the schools in the allocation of Repair and Replacement Project funds. This activity will be completed no later than July 30, 1989.

- b. The Board should review 1988 aid payments to determine if any adjustments are necessary.

Response: Jerry Schmehl, Facilities Manager, will undertake review sufficient to determine if any amounts are sufficient to warrant the costs of recapture. In the event it appears action is required, appropriate procedures will be followed. This process will be completed no later than June 30, 1989.

Mr. James R. Nobles
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2) Employees are not repaying imprest cash fund travel advances on a timely basis.

- a. All imprest cash fund advances should be repaid within 30 days, in accordance with the Department of Finance policy.

Response: The State Board of Vocational Technical Education's policy and procedures for travel advance will be revised to comply with the Department of Finance requirement that travel advances are repaid within 30 days of the trip. A follow-up memo will be sent, requesting immediate payment to employees who have not repaid their advance within the 30 day period. Advances not repaid within 40 days will be processed through the payroll system and withheld from the employee's wages. The implementation date for this policy will be July 1, 1989 and the responsible persons will be Will Dague and Teri Naughton, Fiscal Services.

We would like to express our appreciation for the excellent working relationship that Mike Hassing, Jodi Adams and Sonya Hill have established with our agency. Their professional manner has contributed to the success of the audit.

Sincerely,



Joseph P. Graba, State Director
State Board of Vocational Technical Education

JPG:AW:bfm