

**STATE BOARD OF VOCATIONAL
TECHNICAL EDUCATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1989**

MARCH 1990

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

BOARD OF VOCATIONAL TECHNICAL EDUCATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1989

Public Release Date: March 28, 1990

No. 90-17

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Policies and procedures associated with the following categories:
 - Post Secondary Vocational Education Aids - State Program
 - Construction Aids - State Program
 - Vocational Education Basic Grants to States (CFDA #84.048)
 - Job Training Partnership Act (CFDA #17.250)
 - Cash Management - Federal Program
 - State Employee Payroll
 - Professional and Technical Services Contracts
 - State Employee Travel
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

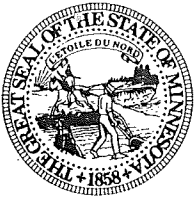
We found three areas where the internal control structure needed improvement:

- The board was not monitoring whether technical colleges had fully expended repair and replacement project funds. We identified six colleges which received \$38,116 more than actual project costs in 1989.
- Employees are not repaying travel advances on a timely basis.
- Employee expense reports are not reviewed properly.

We found one area where the board had not complied with finance-related legal provisions:

- Obligations for professional and technical service contracts were incurred prior to encumbering funds on the statewide accounting system. The board also paid three contractors \$4,535 for services not covered by the contract period.

Contact the Financial Audit Division for additional information.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Helen Henrie, Acting State Director
State Board of Vocational Technical Education

Audit Scope

We have conducted a financial related audit of the State Board of Vocational Technical Education as of and for the fiscal year ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State Board of Vocational Technical Education, as discussed in the Introduction. We have also made a study of the internal control structure of the Board in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities of the State Board of Vocational Technical Education are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Board's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the State Board of Vocational Technical Education is responsible for establishing and maintaining an internal control structure. The responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management, with reasonable, but not absolute assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Post Secondary Vocational Education Aids - State Program;
- Construction Aids - State program;
- Vocational Education Basic Grants to States (CFDA # 84.048);
- Job Training Partnership Act (CFDA # 17.250);
- Cash Management - Federal Program;
- State Employee Payroll;
- Professional and Technical Services Contracts; and
- State Employee Travel.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1, 3, and 4 involving the internal control structure of the State Board of Vocational Technical Education. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, or report financial data.


A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
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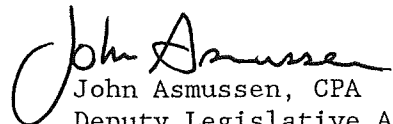
We also noted other matters involving the internal control structure and its operation that we reported to management at a meeting held on February 28, 1990.

The results of our tests indicate that, with respect to the items tested, the State Board of Vocational Technical Education complied, in all material respects, except for finding 2, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Vocational Technical Education had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the State Board of Vocational Technical Education. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 28, 1990.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: January 3, 1990

REPORT SIGNED ON: March 20, 1990

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

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AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Mary Annala	Auditor

EXIT CONFERENCE

An exit conference was held with the following staff from the State Board of Vocational Technical Education on February 28, 1990:

Helen Henrie	Acting State Director
Carol Gabor	Deputy Director
Mel Johnson	Assistant Director
Ann Wood	Finance Specialist
Willard Dague	Accounting Director
Teri Naughton	Accounting Supervisor

STATE BOARD OF VOCATIONAL TECHNICAL EDUCATION

I. INTRODUCTION

The State Board of Vocational Technical Education was established by Laws of Minnesota, 1983, Chapter 258 to govern post-secondary and adult vocational education. The board operates under Minn. Stat. Chapter 136C. The state board consists of 11 members: one from each congressional district, two from the state at large, and one student representing the state at large. A State Director, appointed by the board, serves as the administrative head of the agency. Joseph Graba served as the State Director from 1983 through December 1989. Currently, Helen Henrie is the acting director.

Duties of the State Board of Vocational Technical Education include:

- reviewing and approving budget requests for post-secondary vocational education operations and facilities;
- developing a long-range plan for post-secondary vocational education;
- approving and coordinating programs and courses; and
- allocating state and federal money for post-secondary vocational education.

The State Board of Vocational Technical Education's financial activities are funded mainly by state appropriations and federal grants. Expenditures for the year ended June 30, 1989 are as follows:

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Other Funds</u>	<u>Total</u>
Grants and Aids	\$154,445,517	\$14,532,546	\$19,265,107	\$188,243,170
Personal Services	3,531,716	1,220,405	17,280	4,769,401
Contracts	566,350	131,127	0	697,477
Travel Expenses	274,106	59,945	1,196	335,247
Supplies & Equipment	537,553	39,731	50,277	627,561
Other Administrative Disbursements	<u>1,050,913</u>	<u>265,923</u>	<u>216,741</u>	<u>1,533,577</u>
Total Expenditures	<u>\$160,406,155</u>	<u>\$16,249,677</u>	<u>\$19,550,601</u>	<u>\$196,206,433</u>

Source: Statewide Accounting System as of September 2, 1989.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The board should monitor financial activities for repair and replacement projects.

Procedures are inadequate to ensure that repair and replacement projects are completed before the technical colleges are reimbursed. The board has an internal process that requires the colleges to submit completion reports prior to receiving funds. During fiscal year 1989, four colleges were reimbursed for six projects before the projects were completed. In addition, the board reimbursed two colleges for four projects for which no completion reports had been submitted. The board has not established a system to ensure that projects are completed before funds are reimbursed. Without completion reports, the board cannot verify that projects have been completed.

The board does not monitor unexpended project funds. In 1989 six colleges were reimbursed for \$38,116 more than the actual costs of the projects. The board's aid allocation procedures state that funds for projects that are not completed will be subtracted from the college's future allocations. However, the board did not document the reduction of the college's future project allocations by these amounts. The board should review the 1989 aid payments in relation to completed projects and adjust future allocations for unexpended funds accordingly. A system should be established to ensure that funds appropriated for repair and replacement projects are used solely for these purposes.

RECOMMENDATIONS:

The board should establish a system to monitor the proper use of repair and replacement aids by:

- confirming that projects are completed before payments are made; and
- subtracting unexpended project funds from future allocations.

2. The processing of contracts for professional and technical services needs improvement.

The following weaknesses were identified with respect to contracts for professional and technical services:

- services were performed before contracts were finalized;
- services were provided and paid outside the contract period;
- contracts were authorized for payment before work had been performed; and
- invoices did not indicate the dates services were provided.

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First, the board office incurs contractual liabilities before encumbering funds. Minn. Stat. Section 16A.15, Subd. 3 requires that funds be encumbered prior to any obligation. The Department of Finance procedure 06:04:18 requires state agencies to submit letters of explanation for incurring obligations before the encumbrance of funds.

Board staff incurred obligations before the encumbrances were finalized for 19 contracts and amendments totaling \$149,294 in fiscal year 1989. For the 19 items, we located 11 letters of explanation sent to the Department of Finance. Eight of the contracts were not supported by 16A letters. For these contracts, the work had started or had been completed prior to the encumbrance of funds. Therefore, the board is not in compliance with Minn. Stat. Section 16A.15 Subd. 3.

Second, the board paid three contractors \$4,535 in 1989 for work performed outside of the contract period.

- A contractor received \$2,850 in travel reimbursements before the contract period began.
- A contractor was reimbursed \$207 for travel expenses which had occurred before the performance dates on the agreement. This contractor also received \$278 for travel costs incurred after the expiration of the agreement. After the agreement expired, the board entered into a formal contract for services only. The contract did not have a provision for travel reimbursement.
- A contractor was paid \$1,200 for services prior to the effective date of the contract.

Third, board office staff authorized contracts for payment before the services had been performed. Generally, the contractor and board office staff authorize in writing the completion of work performed and receipt of services. However, one contract was approved for payment before the work had been completed in 1989, and four were approved for payment before the work was performed in 1990. Department of Finance policy and procedure 06:05:01 requires the agency to certify that the goods and services have been received and that the request has not been previously paid.

Finally, service dates were not always indicated on the vendor's invoice. We could not determine the service dates on 6 invoices totaling \$23,552 paid in fiscal year 1989. Department of Finance policy and procedure 06:05:01 requires services dates to be listed on the vendor invoice to prevent duplicate billings and prevent payments of services not properly obtained.

RECOMMENDATIONS

The board should:

- ensure that contracts are authorized and encumbered prior to the effective start date;

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RECOMMENDATIONS (Continued)

- resolve repayment of \$4,535 from consultants for services provided outside the contract period;
- ensure that services are completed before authorizing final payment; and
- require service dates on vendor invoices for proper verification before payment.

3. PRIOR FINDING NOT RESOLVED: Employees are not repaying travel advances on a timely basis.

The board maintains a \$3,000 imprest cash account. The main purpose of the account is to provide travel advances to employees upon request. The employee requests the advance using the standard employee expense report. Department of Finance policy and procedure 06:05:14 requires travel advances to be repaid within 30 days of the trip. The board does not settle all travel advances within the 30-day period.

We tested 20 travel advances paid from the imprest cash account between December 1988 and June 1989. Only 9 of the 20 advances were repaid within the 30 day requirement. The following chart demonstrates the number of travel advances and days before repayments:

<u>ADVANCES</u>	<u>DAYS UNTIL REPAYMENT</u>
9	0 - 30
3	30 - 40
3	40 - 50
3	50 - 60
2	70 - 80

If the imprest cash 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 travel advances should be repaid within 30 days of the trip.

4. Monitoring of employee expense reports needs improvement.

Board employees received reimbursements ranging from \$5 to \$35 for ineligible expenses. During our review of employee expense reports, we found four instances where employees were incorrectly reimbursed for

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mileage, lodging, and minor personal expenses. The board has collected repayments from the individuals. The board needs to improve the monitoring of employee expense reports to ensure that only eligible expenses are reimbursed.

RECOMMENDATION:

- The board should improve the reviewing of employee expense reports to ensure that only eligible expenses are reimbursed.



Minnesota Technical College System

State Board of Vocational Technical Education

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

March 19, 1990

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

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

Dear Mr. Nobles:

The following are the findings and responses to the audit performed on the State Board of Vocational Technical Education for fiscal year 1989.

FINDING

The board should monitor financial activities for repair and replacement projects.

RESPONSE

Due to delays in its development, the Repair and Replacement Policy was adopted by the State Board of Vocational Technical Education on October 10, 1989. That date occurred well into FY90 and therefore, the policy was not in effect in FY89. Under the old procedure, the Board did not require submittal of certification documents prior to payment and paid based on the original estimate of the project. The experience was that the instances of over estimation were few and the over payments were not substantial based on random inquiries.

The FY88 audit report caused the Board to adopt the new policy and it is being implemented for the FY90 allocations. However, the late adoption date was after several payments had already occurred. At this time, the procedures for paying on actual expenses is being implemented, and in the event that any early payments resulted in overpayment, actual costs are being reviewed and any over payments will be deducted from future allocations.

(Responsible Person: Jerry Schmehl, Facilities Manager;
Projected Completion Date: June 30, 1990)

FINDING

The processing of contracts for professional and technical services needs improvement.

RESPONSE

State Board of Vocational Technical Education staff will be trained to ensure that they are knowledgeable of the contractual process within the SBVTE and Department of Administration, so that contracts are authorized prior to encumbrance and completed prior to authorizing final payment. (Responsible Person: Will Dague, Fiscal Services Supervisor; Projected Completion Date: June 30, 1990)

The legitimacy of the services provided by contractors will be verified. If legitimate, appropriate action will be taken to file necessary paperwork to correct. If outside of scope of contract, SBVTE will request a refund for expenses not authorized. (Responsible Person: Will Dague, Fiscal Services Supervisor; Projected Completion Date: June 1, 1990)

Fiscal Services will audit to verify that all invoices are dated and dates of services performed are within timeframe of the contract. (Responsible Person: Will Dague, Fiscal Services Supervisor; Projected Completion Date: April 1, 1990)

FINDING

Prior Finding Not Resolved. Employees are not repaying travel advances on a timely basis.

RESPONSE

During the period that travel advances were not refunded timely, we were in the process of revising the agency policy and procedures for travel which was implemented July 1, 1989. Since that time, we have been in compliance.

FINDING

Monitoring of employee expense reports needs improvement.

RESPONSE

State Board of Vocational Technical Education staff will be inserviced as to allowable items for reimbursement. Fiscal Services will audit employee expenses requested to ensure that only eligible expenses are reimbursed. (Person Responsible: Will Dague, Fiscal Services Supervisor; Projected Completion Date: June 30, 1990)

We hope that we have satisfactorily responded to your findings and will keep you apprised of progress made in these areas.

If you have any further questions or comments, please feel free to contact me.

Sincerely,



Helen Henrie, Interim State Director
State Board of Vocational Technical Education

cc: John Asmussen
Renee Redmer
Mel Johnson