

**STATE BOARD OF TECHNICAL COLLEGES
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992**

DECEMBER 1992

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

93-1

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

STATE BOARD OF TECHNICAL COLLEGES

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: December 11, 1992

No. 93-01

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: post secondary vocational education aids — state program, and Carl D. Perkins vocational education basic grants to states (CFDA #84.048).
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The board did not adequately monitor the development and modification of the computerized aids payment system (VOTAS).

We found no departures from finance-related legal provisions. We did find that Minnesota Rules Chapter 8480 is outdated and inconsistent with the operating policies promulgated by the board. We recommended that the board initiate legislation to resolve the conflicts between Minnesota Rules Chapter 8480 and policies currently followed. We did not test the applicability of these rules.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Carole Johnson, Chancellor
State Board of Technical Colleges

Members of the State Board of Technical Colleges

Audit Scope

We have conducted a financial related audit of the State Board of Technical Colleges as of and for the fiscal year ended June 30, 1992. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the State Board of Technical Colleges. We have also made a study and evaluation of the internal control structure of the Board in effect as of June 1992.

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 attributable to the transactions of the State Board of Technical Colleges 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 Technical Colleges is responsible for establishing and maintaining an internal control structure. This 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.

Due to 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 Programs;
- Carl D. Perkins Vocational Education Basic Grants to States (CFDA # 84.048)

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.

Uncertain Legal Authority of Minnesota Rules, Chapter 8480

As discussed in finding 2, the Board of Technical Colleges is currently working with the Attorney General to determine the legal authority of Minnesota Rules, Chapter 8480, State Board of Technical Colleges System Policy.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the State Board of Technical Colleges. We consider this condition to be a reportable condition under standards set 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, and report financial data.

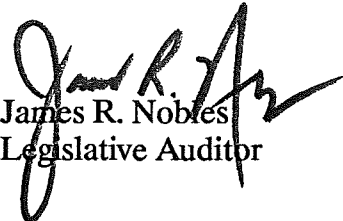
Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Ms. Carole Johnson, Chancellor
Members of the State Board of Technical Colleges
Page 3

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 within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition above is not a material weakness.

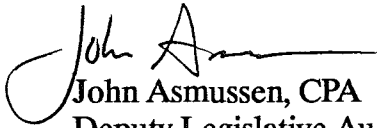
The results of our tests indicate that, except for the issue discussed in finding 2, with respect to the items tested, the State Board of Technical Colleges complied, in all material respects, with the provisions referred to in the audit scope paragraphs. We did not test the applicability of Minnesota Rules, Chapter 8480, as discussed in the previous section. With respect to other items not tested, nothing came to our attention that caused us to believe that the board 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 Technical Colleges. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 11, 1992.

We would like to thank the the State Board of Technical Colleges staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: September 4, 1992

Report Signed On: December 1, 1992

State Board of Technical Colleges

Table of Contents

	Page
Introduction	1
Current Findings and Recommendations	2
Agency Response	4

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
John Wicklund, CPA	Auditor-in Charge
Judy Hunt, CPA	Auditor

Exit Conference

An exit conference was held with the following staff from the State Board of Technical Colleges on October 21, 1992:

Helen Henrie	Deputy Chancellor
Will Dague	Associate Vice-Chancellor - Finance

State Board of Technical Colleges

Introduction

The State Board of Technical Colleges 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. A Chancellor, appointed by the board, serves as the administrative head of the agency. Carole Johnson was appointed Chancellor effective September 1, 1990. Duties of the board 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.

As of July 1, 1992, 18 technical colleges are located around the state. Many technical colleges have recently consolidated operations resulting in multiple campus locations for some colleges. The State Board of Technical Colleges is part of the higher education merger scheduled to be completed in 1995.

The State Board of Technical College's financial activities are funded mainly by state appropriations and federal grants. Total expenditures for fiscal year 1992 were \$184.1 million, as shown on the statewide accounting system, Managers Financial Report, as of September 6, 1992. Post Secondary Vocational Education Aids paid from the General Fund to the technical colleges totaled \$158.5 million. Federal fund expenditures for the Carl D. Perkins Basic Grants to States (CFDA # 84.048) totaled \$13.8 million.

Current Findings and Recommendations

1. The State Board of Technical Colleges did not adequately monitor the development and modification of the computerized aids payment system.

The State Board of Technical Colleges (board) implemented the Vocational Technical Aids System (VOTAS) to process monthly payments of state and federal aids to the technical colleges. Since the system was implemented in September 1991, we noted several weaknesses in the development and modification of the system. The board did not properly authorize the delegation of the the system development contract to another vendor. Additionally, the board did not monitor the work performed by the contract programmers. Written policies for security access controls and program modifications do not exist. Finally, the VOTAS does not have an edit and exception reports to monitor and adjust potential overpayments made to the technical colleges.

The board contracted with Metro II to develop VOTAS; however, the project was sub-contracted to Cap Gemini America without the board's approval. Under provisions of the original contract, Metro II could not assign or transfer its obligations without the board's written approval. The board did not approve in writing of Metro II's delegation of the project. A written agreement would have firmly established legal recourse for the board as programming problems and delays resulted after the contract was delegated to Cap Gemini America. The board should consider contracting directly with vendors and analyze proposals on a competitive basis.

The board did not have adequate internal expertise to monitor the activities of the Cap Gemini America programmers. The programmers made several undocumented changes to VOTAS causing erroneous aid calculations and payments. Because the board lacked expertise to correct system problems, Cap Gemini programmers assisted each month to correct errors in payment calculations and inconsistencies in system reports. Cap Gemini programmers caused additional processing delays by manually adjusting payments instead of correcting the structural deficiencies in the system. These major system deficiencies were not corrected by Cap Gemini until May 1992; nine months later.

VOTAS does not have written data processing policies for computer access, security controls, and program modifications. Cap Gemini America has placed security features in the program; however, formal documentation does not exist. Written procedures document management's policies to ensure the integrity of the system. Control over program modifications is essential for accurate processing of aid transactions. Without written policies, the risk of unauthorized individuals gaining access to the system is increased.

The board disbursed over \$167 million in state and federal aid on VOTAS during fiscal year 1992. Management involvement in future modifications of VOTAS is necessary to ensure the system is accurately distributing aid to the technical colleges.

State Board of Technical Colleges

Recommendations

- *The board management should improve controls over the VOTAS payment process by:*
 - *Authorizing written and direct contracts with programmers detailing responsibilities and work performed;*
 - *Obtaining sufficient internal expertise to monitor the work performed by outside programmers; and*
 - *Establishing written policies for security access controls and program modifications.*

2. The State Board of Technical Colleges needs to resolve the conflict between current operating policies and policies published in the Minnesota Codification of Agency Rules.

Minnesota Rules Chapter 8480 is outdated and inconsistent with the operating policies promulgated by the board. The rules were codified in 1984 under Minn. Stat. Sec. 14.385. These rules contain the board policies as they existed in 1984, but have not been updated since.

Minn. Stat. Sec. 136C.04, Subd. 1 states that the board shall adopt policies regarding its operations. No specific rule-making authority is given to the board except for faculty licensure. Since 1984, the board has operated under the premise that they were exempt from the rule-making process as described in Minn. Stat. Ch. 14. The board was unaware of the existence of these rules and claim their presence in the rules was never intended.

As explained in the introductory section of the report, we did not test compliance to Minn. Rules Ch. 8480 due to the legal uncertainty of their validity. Due to this conflict, potential legal questions could arise with colleges, faculty, and students over important issues such as state aid, tuition, credits, and degree-granting.

Recommendation

- *The State Board of Technical Colleges should initiate legislation to resolve the conflicts between Minn. Rules Ch. 8480 and Board policies currently followed.*



Minnesota Technical College System

State Board of Technical Colleges

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

November 20, 1992

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The following are the findings and responses to the audit performed on the State Board of Technical Colleges (board) for fiscal year 1992.

FINDING:

The board management should improve controls over the VOTAS payment process by:

Authorizing written and direct contracts with programmers detailing responsibilities and work performed;

Obtaining sufficient internal expertise to monitor the work performed by outside programmers; and

Establishing written policies for security access controls and program modifications.

RESPONSE:

Since its separation from the Minnesota Department of Education, the board has maintained a contract with Metro II for mainframe computer time, computer programming, maintenance and development of software. This contract has resulted in considerable savings in computer programming. In those instances when Metro II staff have not been available to perform contracted work, Metro II has contracted with other vendors already approved by the Department of Administration. In the case of the Metro II contract for development of the Vocational Technical Aids System (VOTAS), Metro II contracted with Cap Gemini of America who was on the approved list of the Department of Administration. The board gave verbal, but not written,

approval for Cap Gemini to conduct the work. Providing only verbal approval differed from the board's usual procedure which provides for written approval. In the future written approval detailing responsibilities and the work to be performed will be given any time system development is contracted to another vendor.

The second recommendation is that the board obtain sufficient internal expertise to monitor the work performed by outside programmers. The board's need for expertise in the area of development of computer programming is very limited, and it would not be cost effective to provide such expertise. In the future, any programming required will be more closely monitored by board staff responsible for the results or products of the program and staff with the expertise in computer systems.

In regard to the last recommendation, the system does have security features; however, they were not fully documented. The program was updated to include an edit and exception report to protect against potential overpayments. Written policies and procedures for computer access, security controls, and program modifications will be developed by the board. (Person Responsible: Mel Johnson, Vice Chancellor; Projected Completion Date: January 15, 1993)

FINDING:

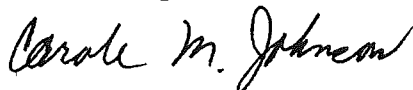
The State Board of Technical Colleges should initiate legislation to resolve the conflicts between Minn. Rules Ch. 8480 and Board policies currently followed.

RESPONSE:

The board will initiate action during the next Legislative session to resolve the conflict between current operating policies and policies published in Minnesota Rules. (Person Responsible: Helen Henrie, Deputy Chancellor; Projected Completion Date: June 30, 1993)

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,



Carole M. Johnson
Chancellor

CMJ:kk