

STATE BOARD OF TECHNICAL COLLEGES

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1993

JANUARY 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-02

STATE BOARD OF TECHNICAL COLLEGES

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: January 21, 1994

No. 94-02

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: post secondary vocational education's aids - state program, Vocational Education Basic Grants to States (CFDA # 84.048), and capital projects - fund 35.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS

CONCLUSIONS:

We found the internal control structure to be effective.

We found two areas where the board did not comply with finance-related legal provisions:

- The board did not comply with the state appropriation laws for a construction project at the Dakota County Technical College. The board authorized the expenditure of state funds to construct a driving course at the college that did not comply with the spending limitations imposed by state laws.
- The board's manual does not fully describe all components of the calculation of post secondary vocational education aid.

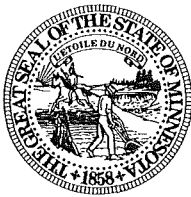
Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General.

Finding 1 related to the authorization of the driving course at the Dakota County Technical College is a material noncompliance with state appropriation law. Minn. Stat. Section 3.975 requires us to report such instances to the Attorney General and the Legislative Audit Commission.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, 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 year ended June 30, 1993. 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 State Board of Technical Colleges in effect as of June 1993.

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 State Board of Technical Colleges's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions. The Board of Technical Colleges is currently working with the Legislature to remove the Minnesota Rules Chapter 8480, State Board of Technical Colleges System Policy. Because these rules no longer applicable, we did not test for compliance with those 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; and

- 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
- Vocational Education Basic Grants to States (CFDA # 84.048)
- Capital Projects - Fund 35

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

In our opinion, the internal control structure of the State Board of Technical Colleges in effect at June 1993, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the State Board of Technical Colleges.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the State Board of Technical Colleges at the exit conference held on December 17, 1993.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed the instances of noncompliance noted in finding 1, the effects of which have been corrected in the State Board of Technical Colleges' 1993 financial statements.


Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
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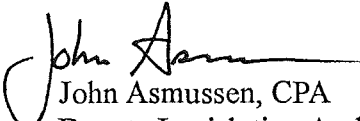
Except for the issues discussed in findings 1 and 2, the results of our tests indicate that, with respect to the items tested, the State Board of Technical Colleges complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Technical Colleges had not complied, in all material respects, with those provisions.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. Finding 1 discusses a material noncompliance with state appropriation law. Minn. Stat. Section 3.975 requires us to report such instances to the Attorney General and Legislative Audit Commission.

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 January 21, 1994.

We thank 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 3, 1993

Report Signed On: January 14, 1994

State Board of Technical Colleges

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
Melissa Gamble, CPA	Staff Auditor

Exit Conference

The report was discussed with the following staff of the State Board of Technical Colleges on December 17, 1993:

Helen Henrie	Deputy Chancellor
Will Dague	Associate Vice Chancellor
Diane Paulson	Associate Vice Chancellor

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.

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

Board activities are financed by state appropriations and federal grants. Annual appropriations for Post Secondary Vocational Education Aids fund 85 percent of the current year and the final 15 percent of prior year aid. The following schedule shows fiscal year 1993 expenditures categorized by state and federal programs and capital projects. Major federal financial assistance programs, including state matching expenditures, are shown by Catalog of Federal Domestic Assistance Number (CFDA).

State Programs:(1)	
Post Secondary Vocational Education Aids	\$149,667,296
Other State Expenditures	10,764,030
Capital Projects:(2)	
Infrastructure Development	9,972,145
Other Capital Project Expenditures	3,377,837
Federal Programs:(3)	
Vocation Education-Basic Grants to States(CFDA # 84.048)	14,557,002
Other Federal Programs	<u>3,043,474</u>
Total Department Expenditures	<u>\$191,381,784</u>

- Sources: (1) The state program amounts are budgetary basis expenditures recorded on the Statewide Accounting System as of September 3, 1993.
- (2) The construction project amounts are Fiscal Year X expenditures recorded on the Statewide Accounting System from July 1, 1992 to June 30, 1993.
- (3) The federal program amounts are budgetary basis expenditures recorded on SWA as of September 30, 1993, adjusted for federal financial statement purposes.

State Board of Technical Colleges

Current Findings and Recommendations

1. **The State Board of Technical Colleges did not comply with the state appropriation laws for a construction project at the Dakota County Technical College.**

The State Board of Technical Colleges authorized the expenditure of state funds on a construction project that did not comply with the spending limitations imposed by state laws. According to the appropriation laws, the board was not to authorize expenditures for construction of a driving course at Dakota County Technical College unless the project could be completed for a total cost of \$1.2 million. Yet, the board authorized the project to expend the state share of \$939,000 despite projections that showed the project would cost \$1.9 million.

In its 1990 capital budget, the board requested \$1.9 million to construct the driving course. The 1990 Legislature authorized the project, but only if it could be constructed for a total cost of \$1.2 million. Minn. Laws 1990, Chapter 610, Article 1, Section 2, Subd. 6 appropriated state funds of \$939,000 under the following conditions:

This appropriation is for a decision driving course and truck driving areas on land leased from the University of Minnesota, or currently owned land. No exchange of ownership of the property may occur. Any unspent balance remaining after completion of this project may be spent for classrooms. The total cost of the project must not exceed \$1,200,000 whether paid from state, local, or federal money.

Minn. Laws 1990, Chapter 610, Article 1, Section 2, Subd. 2 further clarified the limitations on the use of this appropriation. It provided, in part:

Plans must be paid for out of this appropriation. The remainder of the appropriation must not be spent until the board has secured suitable plans and specifications, prepared by a competent architect or engineer. The plans and specifications must be accompanied by a detailed statement of the cost, quality, and description of all material and labor required for the completion of the work. No plan may be adopted, and no improvement made or building constructed, that contemplates the expenditure for its completion of more money than the appropriation for it, unless otherwise provided in this act. (emphasis added)

An architect hired by Dakota County Technical College had estimated the original project cost of \$1.9 million that the board had sought in its 1990 capital budget request. Despite the limitations on this appropriation, the board authorized construction of the driving course based on the original architectural design. It did not curtail the project in order to complete construction

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within the \$1.2 million spending limit cited in the appropriation act. Rather, from December, 1990, to August, 1993, it executed a series of construction contracts to complete only the initial phases of the project, e.g. rough grading of the roadway, installation of storm sewers, water systems and land restoration.

As of September 30, 1993, the board had exhausted most of the \$1.2 million in project funds. Yet the project remains far from complete. Laws 1993, Chapter 373, Section 2, Subd. 4, provided that Dakota County Technical College may complete the decision driving course using local money. In addition, the board recently prepared a 1994-1995 capital budget request that estimated an additional \$1.2 million is needed to finish construction of the driving course. The additional funds are needed to complete final grading and asphalt surfacing of the roadway, and to install the electrical supply and security fencing. The project finances are shown in Table 1-1.

The 1990 appropriation laws also provided the board with funding to complete other construction projects. These other projects were subject to the same spending limitations. In our testing, we found no other instances of noncompliance with state laws.

Table 1-1
Dakota County Technical College
Project Financing for Decision Driving Course

	Appropriation and Expenditures	Funding Source	
		State	Local
Appropriation Laws of 1990	<u>\$1,200,000</u>	<u>\$939,000</u>	<u>\$261,000</u>
Contract Expenditures - Dec. 1990 to Aug. 1993:			
Consulting Engineer: Enviroscience, Inc.	\$ 244,603		
Construction: S.M. Hentges & Sons, Inc.	929,355		
Engineer: Braun Intertec	<u>13,700</u>		
Total Contracted Expenditures	\$1,187,658		
Estimated Costs to Complete Project 1994-95	<u>1,200,000</u>	<u>\$600,000</u>	<u>\$600,000</u>
Total Project Costs	<u>\$2,387,658</u>		

Recommendations

- *The Board of Technical Colleges should adhere to provisions of the appropriation laws.*
- *The Board of Technical Colleges should work with the Attorney General's Office to resolve the funding issues related to the completion of the Dakota County Technical College project.*

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2. The board's manual does not fully describe all components of the calculation of Post Secondary Vocational Education aid.

The board's manual does not completely document the distribution of Post Secondary Vocational Education (PSVE) aid. The board distributes a manual to the technical colleges describing the aid calculation process for PSVE. However, the manual is incomplete for the following components:

- Media services (staff, supplies, and equipment)
- Minority advisor services
- New program services
- Supplemental services

It is important that the board retain complete and detailed documentation of the formula to ensure proper distribution of the aid to colleges. A complete manual would provide the technical colleges with an understanding of its aid calculation.

Minnesota Statute 136C.31, subdivision 2 requires the board to adopt internal procedures to administer and monitor aids and grants. The statutes do not clearly define the allocation of aid, therefore, it is the responsibility of the board to communicate the aid formula with the technical colleges.

Recommendation

- *The Board of Technical Colleges should improve its manual to adequately document the calculation of Post Secondary Vocational Education aid.*



Minnesota Technical College System

State Board of Technical Colleges

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

January 7, 1994

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

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

Dear Mr. Nobles:

I am writing in response to the report of findings and recommendations related to the financial audit of the State Board of Technical Colleges for the year ending June 30, 1993. The two findings and related recommendations as presented in the report and reviewed at the audit exit conference of December 17, 1993 will be addressed.

The first finding and recommendations regarding failure to comply with legislation limiting the use of capital budget appropriations accurately describes actions taken by the State Board since the language in Chapter 610, Article 1, Section 2, Subd.2 was first enacted in 1990. In the case of the Dakota County Technical College decision driving course the actions taken did not result in the completion of the proposed project within the funding level of \$1,200,000. Furthermore as the report indicates the legislature in 1993 did provide that Dakota County Technical College may use local money to complete the project.

As noted in the report the processes and specific actions established and implemented for the first time during 1990 have controlled expenditures of \$ 25,979,300. These monies were authorized in 1990 for capital projects at twelve Technical Colleges in addition to the project at Dakota County Technical College.

The State Board is fully aware of its failure to carry out the intent of the appropriation law in relation to the Dakota County Technical College decision driving course. The State Board is committed to full compliance with the provisions of the appropriations laws and therefore has instituted processes and staff training to assure that this commitment is met. The State Board will seek assistance from the Attorney General's Office as recommended.

The second recommendation to improve the documentation of the methods used to calculate Post Secondary Vocational Aids, with specific focus on media services, minority advisor services, new program services and supplemental services will be addressed in the following manner. Hard copy documentation of the detailed calculations for these formulas currently stored in spreadsheet computer files will be prepared. The hard copy will document the data flow and formula components to supplement the computer files and facilitate auditing processes.

We want to thank you and your staff for the openness and responsiveness shown during this process.

Sincerely,

Carole M. Johnson
Chancellor