

Minnesota State Colleges and Universities

Selected Programs Administered by the Former Board of Technical Colleges Fiscal Year 1995 Statewide Audit

March 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-10



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission


Judith Eaton, Chancellor
Minnesota State Colleges and Universities


Members of the Board of Minnesota State Colleges and Universities

We have audited selected areas of the Minnesota State Colleges and Universities related to the former Board of Technical Colleges for the fiscal year ended June 30, 1995, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements and Single Audit (federal compliance audit). The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996. Therefore, we emphasize that this has not been a complete audit of all financial activities of the Minnesota State Colleges and Universities. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota State Colleges and Universities complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Minnesota State Colleges and Universities is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Colleges and Universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 15, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 29, 1995

Report Signed On: March 8, 1996

SUMMARY

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

Minnesota State Colleges and Universities

Selected Programs Administered by the Former Board of Technical Colleges Fiscal Year 1995 Statewide Audit

Public Release Date: March 15, 1996

96-10

Agency Background

Laws of Minnesota for 1995, Chapter 21, Article 4 provides for the transfer of authority, responsibilities, and property of the State Board of Technical Colleges to the Board of Trustees of the Minnesota State Colleges and Universities effective fiscal year 1996. For fiscal year 1995 the State Board of Technical Colleges (board) operated under Minn. Stat. Chapter 136C. The board consisted 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, served as the administrative head of the agency. Carol Johnson served as the chancellor through June 30, 1995. Duties of the board included approving the budget for vocational education operations and facilities, establishing a long-range plan, approving and coordinating programs and courses, and allocating state and federal money.

Selected Audit Areas and Conclusions

This audit focused on selected programs previously administered by the State Board of Technical Colleges for the year ended June 30, 1995. Our audit scope was limited to those areas material to the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995 and to the Single Audit objectives. Areas that met this criteria included Post Secondary Vocational Education and Construction State Aids, and the federal Vocational Education Basic Grants to States Program.

We concluded that the State Board of Technical Colleges expenditures for the Post Secondary Vocational Education and Construction Aids are presented fairly on the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995.

We also concluded that the State Board of Technical Colleges generally complied with the Vocational Education Basic Grants to States Program federal requirements. However, we found that the board did not return unobligated federal funds to the U.S. Department of Education.

Contact the Financial Audit Division for additional information.
296-1235

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Note: MnSCU attached eight pages of sample reports and forms to its response letter. The attachment is available from us upon request.	

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Mary Annala, CPA	Auditor
Leah Tetzlaff	Auditor
David Rosoff	Intern

Exit Conference

The finding and recommendation in this report was discussed with staff of the Minnesota Colleges and Universities on February 12, 1996:

Tom Triplett	Interim Vice Chancellor for Budget
Diane Paulson	Associate Vice Chancellor for Budget
Mary Jacquart	System Director for Educational Grants Program
Al Finlayson	Director of Internal Audits

Chapter 1. Introduction

Laws of Minnesota for 1995, Chapter 21, Article 4, provided for the transfer of authority, responsibilities, and property of the State Board of Technical Colleges to the Board of Trustees of the Minnesota State Colleges and Universities effective July 1, 1995. For fiscal year 1995 the State Board of Technical Colleges operated under Minn. Stat. Chapter 136C. The State Board of Technical Colleges consisted 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, served as the administrative head of the agency. Carole Johnson served as the chancellor through June 30, 1995, before the merger occurred. Judith Eaton's appointment as chancellor of the Minnesota State Colleges and Universities became effective August 15, 1995. Duties of the former State Board of Technical Colleges included:

- 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.

State appropriations and federal grants totaling approximately \$230 million financed the State Board of Technical Colleges activities for fiscal year 1995. Our audit scope focused on the fiscal year 1995 expenditures included in Table 1-1. These financial activities were material to the state's financial statements and to the Single Audit objectives. We also reviewed the board's compliance to the compliance requirements as outlined in U.S. Office of Management and Budget's Compliance Supplement for the Single Audit.

**Table 1-1: Audited Financial Activities
Year Ended June 30, 1995**

State Programs (1)	
Post Secondary Vocational Education	\$194,023,000
Construction Aids	\$ 12,688,000
Federal Program (2)	
Vocational Education Basic Grant (CFDA #84.048)	\$ 14,931,000

Sources:

- (1) Minnesota Comprehensive Annual Financial Report for Fiscal Year 1995.
 - (2) Minnesota's Financial and Compliance Report on Federally Assisted Programs.
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The primary objective of the Statewide Audit is to render an opinion on the State of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1995. This includes whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the

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internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. The Single Audit Act established two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program;
- the state has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

To address these objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of financial transactions.

Our work on the State Board of Technical Colleges was completed as part of our audit to express an opinion on the state's fiscal year 1995 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our report, issued thereon dated December 1, 1995. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1996.

In addition to preparing those standard reports, we have also developed an audit finding and recommendation. In Chapter 2 we discuss our finding regarding the federal program Vocational Education-Basic Grants to States (CFDA # 84.048).

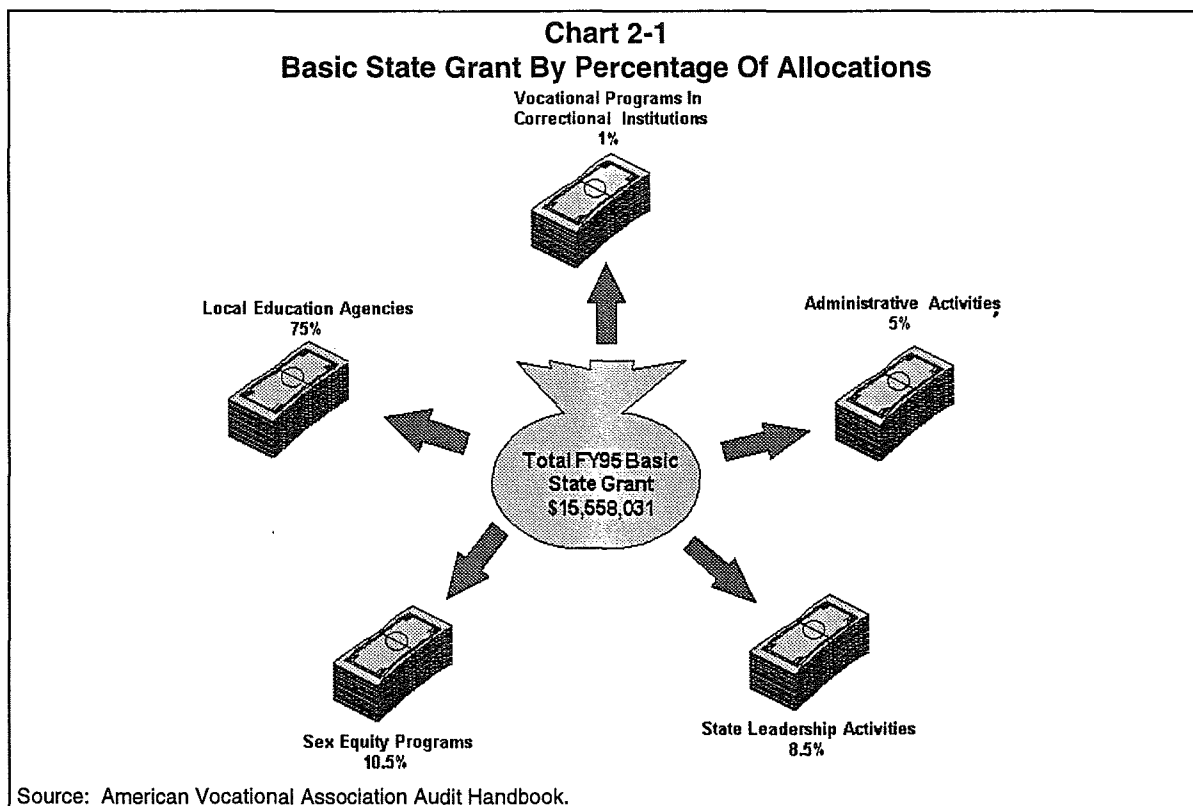
Chapter 2. Vocational Education Basic Grants to States

Chapter Conclusions

The State Board of Technical Colleges administered the Federal Basic Grants to States Program (CFDA #84.048) in accordance with most U.S. Department of Education and Single Audit requirements. However, the board has not returned unobligated funds to the U.S. Department of Education.

The Federal Basic Grants to States Program assists physically, educationally, and economically disadvantaged individuals in receiving vocational education. The U.S. Department of Education allocated \$15,558,031 to Minnesota in fiscal year 1995 for the Federal Basic Grant Program.

The grant award provides funding for various activities within this program. The following chart shows the allocation of the grant funds into the various program activities.



The State Board of Technical Colleges distributed 75 percent of the grant award to local education agencies, area vocational-technical schools, and post-secondary institutions. Of the 25 percent of the basic grant retained by the state, equity programs receive 10.5 percent of the funds.

Minnesota State Colleges and Universities

These funds are available for programs serving single parents, displaced homemakers, single pregnant women, and for sex equity programs. The state is to use 8.5 percent of the grant for state leadership activities and 5 percent for administrative activities. The remaining 1 percent is available for vocational programs in correctional institutions. We found that the Department of Corrections did not return the unexpended grant funds from the correctional institutions to the State Board of Technical Colleges and to the federal government.

1. The State Board of Technical Colleges did not ensure that the Department of Corrections returned unobligated funds for the Federal Basic Grants to States Program (CFDA #84.048) to the U.S. Department of Education.

The State Board of Technical Colleges did not adequately monitor the disposition of funds subgranted to the Department of Corrections. Federal regulations 34 CFR, Part 76, establishes fiscal responsibility for the administration of federal funds primarily with the grantee. However, the board did not comply with program regulations and allowed the Department of Corrections to retain unobligated grant funds.

The board advanced grant funds to the Department of Corrections at the beginning of each fiscal year. The Department of Corrections then allocated the funding to eligible correctional institutions for various vocational educational activities. The U.S. General Education Provisions Act stipulates that subgrantees must obligate funds within 27 months. This act also requires subgrantees to return to the U.S. Department of Education funds not obligated after that time frame. The correctional facilities did not establish commitments for the total amount of funds provided by the Department of Corrections. The facilities kept unobligated money for up to 53 months. The Department of Corrections should return the unobligated money to MnSCU, who in turn should return it to the U.S. Department of Education. The Department of Corrections owes \$13,675 of unexpended money to the U.S. Department of Education. The following table shows the unobligated funds as of December 1995.

Table 2-1
Unobligated Funds for the Federal Basic Grants to States Program
As of December 31, 1995

<u>Date of Availability</u>	<u>Final Date of Obligation</u>	<u>Number of Months Exceeding Obligation Period</u>	<u>Unobligated Grant Amount</u>
July 1, 1991	Sept. 30, 1993	27 months	\$10,105
July 1, 1992	Sept. 30, 1994	15 months	3,100
July 1, 1993	Sept. 30, 1995	3 months	470
Total			<u>\$13,675</u>

Source: Department of Corrections Accounting Records.

Recommendation

- *MnSCU should work with the Department of Corrections to return the unobligated balance of \$13,675 to the U.S. Department of Education.*



Minnesota State Colleges and Universities

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February 28, 1996

John Asmussen
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Asmussen:

We have reviewed the draft report on the FY95 audit of the former Board of Technical Colleges. Our action on the one finding is explained below:

Finding: The State Board of Technical Colleges did not ensure that the Department of Corrections returned unobligated funds for the Federal Basic Grants to States Program (CFDA #84.048) to the U.S. Department of Education.

Response:

Staff from MnSCU office met with staff from Department of Corrections to discuss this finding. Department of Corrections is processing a refund to MnSCU for the \$13,675 unobligated balance. MnSCU will issue the refund to the U.S. Department of Education.

A process to ensure that current and future funds will be spent in an appropriate and timely manner was also discussed. Department of Corrections will institute quarterly reports on grants to their institutions. Adjustments to grants will be made if funds are not expended within the approved timelines. These reports will be shared with and monitored by the MnSCU System Director for Educational Grants. Any unobligated funds will be returned to the U.S. Department of Education by the end of the grant period.

A copy of the forms developed by Department of Corrections to award and monitor grants to their institutions is enclosed for your information.

I want to thank you and your staff for the thoroughness and professionalism that was shown during this audit process. With the merger of the three former system offices and the departure or reassignment of several key personnel, the audit may have taken longer than normal. Your staff was very patient and understanding of the situation. If there is any additional information that we can provide, please contact me.

Sincerely,

Tom Triplett
Interim Vice Chancellor
Finance and Administration