

Minnesota State Residential Academies

Financial Related Audit

For the Five Years Ended June 30, 1996

September 1996

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

96-38



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

Dr. Katherine Jankowski, Superintendent
Minnesota Academy for the Deaf

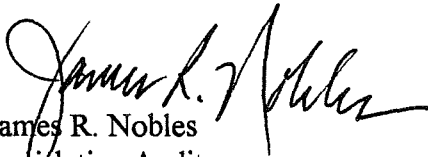
Ms. Elaine Sveen, Superintendent
Minnesota Academy for the Blind

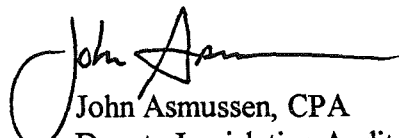
We have audited the Minnesota State Residential Academies for the five years ended June 30, 1996, as further explained in Chapter 1. Our audit scope included tuition, federal grants, payroll, professional/technical services, and resident accounts. The following Summary highlights the audit objectives and conclusions. We discuss these issues 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. These standards also require that we design the audit to provide reasonable assurance that the Minnesota State Residential Academies complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota State Residential Academies is responsible for establishing and maintaining the internal control structure and for compliance 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 Residential Academies. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 20, 1996.

We thank the staff of the Minnesota State Residential Academies for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 31, 1996

Report Signed On: September 16, 1996

SUMMARY

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

Minnesota State Residential Academies

Financial Related Audit For the Five Years Ended June 30, 1996

Public Release Date: September 20, 1996

No. 96-38

Agency Background

The Minnesota State Residential Academies provide programs and educational services in a residential setting for deaf, blind, and deaf-blind children. The residential academies are composed of the Minnesota Academy for the Deaf and the Minnesota Academy for the Blind. The residential academies are under the direction of co-administrators. Dr. Katherine Jankowski is the administrator for the Academy for the Deaf and Ms. Elaine Sveen is the administrator for the Academy for the Blind.

Audit Objectives and Conclusions

Our audit objectives were to obtain an understanding of management controls relevant to tuition, federal grants, payroll, professional/technical services, and resident accounts. We also designed our audit to provide reasonable assurance that the residential academies complied with finance related legal provisions.

The residential academies accurately billed and properly collected and deposited its tuition revenue in a timely manner. Tuition revenue was properly recorded in the state's accounting system. We noted that two individuals had conflicting responsibilities over tuition receipts. The residential academies submitted accurate requests to the Minnesota Department of Education for federal reimbursements and spent its grant funds in accordance with the provisions of the grants. These expenditure were properly recorded on the state's accounting system.

The residential academies properly authorized and supported payroll transactions, processed payroll in accordance with applicable bargaining unit agreements, and accurately recorded payroll in the state's accounting system. The academies properly authorized consultant and professional/technical service contracts and adequately supported payments according to established policies and procedures. Professional/technical service expenditures were properly recorded on the state's accounting system. However, we noted that the academies need to document shared service agreements and improve controls over its purchasing and receiving functions.

The residential academies' student funds are physically secure. The academies record the resident students financial activity promptly, accurately, and in accordance with the student's authorizations. In addition, resident student activity is reconciled to the bank balances on a regular basis. However, a lack of separation of duties exists over the resident student accounts.

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

Minnesota State Residential Academies

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Revenues	2
Chapter 3. Academy Operations	5
Chapter 4. Resident Accounts	9
Agency Response	11

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Geniene Herrlich, CPA	Auditor-In-Charge
Matt Hoffer	Auditor
Steven Johnson	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Minnesota State Residential Academies on August 30, 1996.

Dr. Katherine Jankowski	Superintendent
Elaine Sveen	Superintendent
Tom Schoenbauer	Accounting Supervisor

Minnesota State Residential Academies

Chapter 1. Introduction

The Minnesota State Residential Academies consist of the Minnesota State Academy for the Deaf (MSAD) and Minnesota State Academy for the Blind (MSAB). The residential academies provide educational and resource services to meet the needs of deaf, blind, and deaf-blind children and youth in a residential setting. These services are provided to children who may not have these services available to them within their school districts of residence.

The State Board of Education directed a reorganization of the residential academies. Specifically, the position of agency administrator has been abolished and the director of education at MSAD and MSAB are co-agency administrators. Currently, Dr. Katherine Jankowski is the superintendent of MSAD, and Elaine Sveen is the Superintendent of MSAB. Mr. Wade Karli managed and operated the academies' programs until March 1994.

State appropriations fund the general operations of the academies. Table 1-1 summarizes the financial activity for the Minnesota State Residential Academies for fiscal years 1992-1996.

Table 1-1
Residential Academies' Financial Activities
Fiscal Years 1992 through 1996

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
State Appropriation	<u>\$7,801,000</u>	<u>\$7,773,000</u>	<u>\$7,784,000</u>	<u>\$8,153,000</u>	<u>\$8,075,000</u>
Revenues:					
Tuition (1)	\$1,184,415	\$939,985	\$ 950,378	\$1,087,370	\$1,064,434
Federal Grants	88,585	256,228	246,524	287,177	224,636
Resident Accounts	26,684	27,617	27,603	23,524	19,567
Other Revenue	<u>207,095</u>	<u>188,284</u>	<u>218,010</u>	<u>97,743</u>	<u>193,177</u>
Total Revenue	<u>\$1,506,779</u>	<u>\$1,412,114</u>	<u>\$1,442,515</u>	<u>\$1,495,814</u>	<u>\$1,501,814</u>
Expenditures:					
Payroll	\$7,403,547	\$7,406,683	\$7,471,462	\$7,848,737	\$7,595,573
Professional/Technical	257,038	358,535	338,697	401,293	349,986
Resident Accounts	28,288	27,390	27,657	25,623	15,589
Other Expenditures	<u>729,637</u>	<u>979,396</u>	<u>836,374</u>	<u>971,466</u>	<u>858,992</u>
Total Expenditures	<u>\$8,418,510</u>	<u>\$8,772,004</u>	<u>\$8,674,190</u>	<u>\$9,247,119</u>	<u>\$8,820,140</u>

Note: Fiscal years 1992 through 1995 include financial information through the close of the year. Fiscal year 1996 includes financial information only through August 17, 1996.

(1) Only part of the tuition revenue is dedicated to the academies and available for expenditures. (See Table 2-1.)

Source: Derived from the statewide accounting system.

Minnesota State Residential Academies

Chapter 2. Revenues

Chapter Conclusions

The residential academies accurately billed and properly collected and deposited its tuition revenue in a timely manner. Tuition revenue was properly recorded in the state's accounting system. However, we noted that individuals have conflicting responsibilities over tuition receipts. The residential academies submitted accurate requests to the Minnesota Department of Education for federal reimbursements and spent its grant funds in accordance with the provisions of the grants. These expenditures were properly recorded on the state's accounting system.

Our audit scope for revenue activity focused on tuition and federal grant reimbursements for the state fiscal years 1992 through 1996. Revenues for the academies' various programs, as shown in Table 1-1, were about \$1.4 million each year. Tuition revenues accounted for approximately 70 percent of total revenues. Federal grants were approximately 15 percent of total revenues.

Tuition

The school districts are responsible for paying the tuition costs of children residing within the school district who attend the residential academies. On May 1 of each year, the academies bill the appropriate school district for tuition. Prior to fiscal year 1992, the academies billed, collected, and deposited all tuition as nondedicated revenue into the state's General Fund. As a result, tuition receipts were not available to fund academy operations. Since then, however, the tuition cost is determined in Minn. Stat. Section 120.17, Subd. 7a (g). Minn. Stat. Section 120.17 Subd. 7a (h) provides that a calculated portion of tuition be "credited to the general operation account of the academy for the deaf and the academy for the blind."

Table 2-1 highlights total tuition collected and deposited to the General Fund and that portion that is "dedicated" back to the academies for operations.

Table 2-1
Residential Academies' Tuition Revenue
Fiscal Years Ended June 30

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Tuition Revenues:					
Dedicated to Residential Academies	\$ 382,408	\$551,400	\$480,881	\$ 429,836	\$558,722
Nondedicated	<u>802,007</u>	<u>388,585</u>	<u>469,497</u>	<u>657,534</u>	<u>505,712</u>
Total General Fund	<u>\$1,184,415</u>	<u>\$939,985</u>	<u>\$950,378</u>	<u>\$1,087,370</u>	<u>\$1,064,434</u>

Source: Statewide accounting system reports and the residential academies' internal documents.

Minnesota State Residential Academies

Our review of tuition receipts focused on the following questions:

- Did the residential academies accurately bill and properly collect and deposit its tuition revenue?
- Did the residential academies deposit tuition revenue in a timely manner?
- Did the residential academies properly record tuition in the state's accounting system?

To address these questions we interviewed the academies staff, we tested a sample of tuition billings and subsequent deposits, and performed certain analytical procedures to gain an understanding of the tuition billing and related collecting process.

We concluded that the academies accurately billed and properly collected and deposited its tuition revenue in a timely manner. In addition, the academies properly recorded tuition revenue in the state's accounting system. However, we noted that individuals have conflicting responsibilities over tuition receipts, as further explained in Finding 1.

1. PRIOR FINDING NOT RESOLVED: The academies have assigned incompatible accounting duties to employees responsible for tuition revenue.

The residential academies did not properly segregate duties in the billing of student tuition and receipt collection process. Currently, two of the academies' employees have complete record keeping and cash handling responsibilities, which represents a significant risk to the control structure in place over tuition.

The human resource assistant performs most of the duties related to the basic tuition billing and collection process. The assistant bills the school districts and maintains the corresponding tuition accounts receivable records. The assistant opens the mail containing tuition receipts, completes the receipt forms, prepares the deposits, and stamps the deposit forms with the administrator's signature stamp. A similar situation exists for the academies' business manager. The business manager performs the billing of, maintains the records for, and has access to the tuition receipts for educational aids. The academies should separate the duties between the record keeping and the access to the recorded assets.

Recommendation

- *The residential academies should separate the duties between the billing and receipt collection functions.*

Federal Grants

The majority of the residential academies' federal grants are child nutrition grants. Under this reimbursable program, the academies submit reimbursement requests through the Minnesota Department of Education. The academies are then partially reimbursed by the federal government via the Minnesota Department of Education. This program provided the academies with an average of \$85,000 per year during our audit period.

Minnesota State Residential Academies

The remaining grants for the five year audit period amounted to approximately \$130,000 each year. These federal grants, other than child nutrition grants, all share the common purpose of providing additional funding to meet the specialized needs of and to improve the care available for the residential academies' students. For example, the largest of these grants provides funding to offset the cost of providing five additional dorm parents.

Our review of federal grants focused on the following questions:

- Did the residential academies submit accurate requests to the Minnesota Department of Education for federal reimbursement under the child nutrition program?
- Did the residential academies spend its grant funds in accordance with the grant provisions?
- Did the residential academies properly record federal grant transactions in the state's accounting system?

To address these questions, we interviewed residential academy personnel, summarized and reviewed financial data, tested grant related payroll and purchasing expenditures to supporting documentation, and verified amounts reported to the Minnesota Department of Education. Our work on these federal grants was less than that required for major single audit programs.

We concluded that the residential academies submitted accurate requests to the Minnesota Department of Education for federal reimbursement under the child nutrition program. The academies also spent its grant funds in accordance with the provisions of the grants. In addition, these expenditures were properly recorded on the state's accounting system.

Chapter 3. Academy Operations

Conclusions

The residential academies properly authorized and supported payroll transactions, processed payroll in accordance with applicable bargaining unit agreements, and accurately recorded payroll in the state's accounting system. The academies properly authorized consultant and professional/technical service contracts and adequately supported payments according to established policies and procedures. Professional/technical service expenditures were properly recorded on the state's accounting system. However, we noted that the academies need to document shared service agreements and improve controls over its purchasing and receiving functions.

Payroll

The Minnesota State Residential Academies' personnel and payroll functions are located at the Academy for the Deaf. Various bargaining units represent employees at the academies, including AFSCME (Council 6, AFL-CIO), Middle Management Association (MMA), Management Association for Professional Employees (MAPE), the Managerial Plan, and the State Residential Schools Education Association (SRSEA). Payroll for the residential academies represents approximately 85 percent of the total annual expenditures. Payroll has remained relatively constant over the last five years, increasing from \$7,403,547 in 1992 to \$7,595,573 in 1996 (as of August 17, 1996). See Table 3-1 for payroll data from fiscal year 1992 through fiscal year 1995.

Table 3-1
Residential Academies' Payroll Expenditures
Fiscal Years 1992-1995

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Regular Classified	\$6,874,940	\$6,834,505	\$6,895,849	\$7,259,604
Regular Unclassified	196,257	186,744	148,536	114,875
Part-Time/Seasonal	152,865	188,125	203,206	271,575
Severance Pay	14,988	31,449	49,108	25,381
Premium Pay	40,580	37,325	38,214	36,005
Overtime Pay	30,801	25,056	29,072	27,701
Miscellaneous	15,646	8,655	17,185	13,251
Employee Benefits	<u>77,470</u>	<u>94,824</u>	<u>90,292</u>	<u>100,345</u>
Total	<u>\$7,403,547</u>	<u>\$7,406,683</u>	<u>\$7,471,462</u>	<u>\$7,848,737</u>
Total Employees	197	197	213	211

Source: Statewide accounting system reports through the close of the fiscal year.

Minnesota State Residential Academies

Our review of payroll focused on the following questions:

- Did the residential academies properly authorize and adequately support payroll transactions?
- Did the residential academies process its payroll in accordance with applicable bargaining unit agreements?
- Did the residential academies properly record payroll transactions in the state's accounting system?

To address these questions, we interviewed key personnel, used analytical procedures, and tested a sample of payroll transactions.

We concluded that the academies properly authorized and supported payroll transactions. In addition, payroll was processed in accordance with applicable bargaining unit agreements. We also concluded that the academies' payroll transactions were properly recorded in the state's accounting system.

Professional/Technical Services

For the five year audit period, the academies disbursed a total of \$1,705,549 for consultant and professional/technical services, as shown in Table 3-3.

The academies' primary expense under professional/technical services was a contract with the Faribault School District to provide mainstreaming services for residential academy students. This contract accounts for approximately 75 percent of the yearly professional/technical expenditures. Other types of services accounted for within this expenditure type include art, music, interpreters, independent living, and occupational and physical therapists.

Table 3-3
Consultant and Professional/Technical Services
Fiscal Years 1992-1996

Fiscal Year 1992	\$ 257,038
Fiscal Year 1993	358,535
Fiscal Year 1994	338,697
Fiscal Year 1995	401,293
Fiscal Year 1996	<u>349,986</u>
Total	<u>\$1,705,549</u>

Sources: Statewide accounting system reports and Minnesota accounting and procurement system reports.

Our review of consultant and professional technical service payments focused on the following questions:

- Did the residential academies follow established policies and procedures to ensure that expenditures were properly authorized and adequately supported?

Minnesota State Residential Academies

- Did the residential academies properly record professional/technical service expenditures on the state's accounting system?

To address these questions we gained an understanding of the consultant and professional/technical contract cycle through interviews with key personnel. We performed a review of consultant and professional/technical payments made throughout the audit period. We performed testing to ensure that all payments were reasonable and appropriate, accurate, and supported by a properly executed contract. We also tested to ensure that the expenditures were properly recorded on the state's accounting system.

We concluded that the academies followed established policies and procedures to ensure that consultant and professional/technical service contracts were properly authorized and that payments were adequately supported. In addition, the academies properly recorded professional/technical service expenditures on the state's accounting system.

Other Issues

During the course of our audit, we observed areas outside of our audit scope that impact on the academies' internal control structure.

2. The academies did not document shared services agreements in writing.

The academies have not prepared written agreements with the Faribault Correctional Facility for the exchange of some services. The academies permitted the correctional facility to use some space in Dow Hall for storage in exchange for welding services provided by the correctional facility. The academies did not document this agreement in writing. The academies need to prepare written agreements to document the fair exchange of services and to address other concerns, such as liability, maintenance of equipment, or other responsibilities.

Recommendation

- *The academies should prepare written agreements to document the terms associated with exchanging services with other entities.*

3. The residential academies have assigned incompatible duties for its purchasing and receiving functions.

Currently, one person is responsible for placing orders, receiving and distributing goods, and overseeing the inventory in the storage room. The academies purchased about \$300,000 of supplies, commodities, and fixed assets each year.

The purchasing and receiving functions should not be the responsibility of a single individual. To ensure an appropriate check and balance system is in place, the purchasing responsibilities should be separate from the receiving function. The purchasing function should forward a copy of the completed purchase order to the business office. The receiving function should forward a

Minnesota State Residential Academies

receiving report or shipping document to the business office after the goods have been received and accepted. Someone in the business office, independent of the purchasing and receiving functions, should reconcile any differences before the subsequent vendor invoice is paid.

Recommendation

- *The residential academies should segregate its purchasing and receiving functions between two or more individuals.*

Chapter 4. Resident Accounts

Conclusions

The residential academies' student funds are physically secure. The academies record the resident students financial activity promptly, accurately, and in accordance with the students' authorizations. In addition, resident student activity is reconciled to the bank balances on a regular basis. However, a lack of separation of duties exists over the resident student accounts.

The students enrolled at the residential academies may deposit personal funds with the academies' business office and withdraw those funds as they wish. The business office deposits the student funds into the state's accounts, called resident accounts. The business office maintains an account balance for each student. A small cash account is maintained for daily needs. A local checking account is used for larger withdrawals and to replenish the cash account. The academies request reimbursements of the checking account, as needed, from the funds on deposit with the state. On June 30, 1996, the account balance was \$9,819. Table 4-1 recaps the financial receipts and expenditures of the resident account for each fiscal year within the scope of our audit.

Table 4-1
Minnesota State Residential Academies
Recap of Resident Accounts Receipts and Expenditures
Fiscal Years 1992 - 1996

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Receipts	\$26,684	\$27,617	\$27,603	\$23,524	\$19,567
Expenditures	\$28,288	\$27,390	\$27,657	\$25,623	\$15,589

Note: Fiscal years 1992-1995 include data through the close of the fiscal year, but fiscal year 1996 includes data through August 17, 1996.

Source: Statewide accounting system reports and Minnesota accounting and procurement system reports.

Our review of resident accounts focused on the following questions:

- Were the residential academies' resident student funds physically secure?
- Did the residential academies record the resident students' financial activity promptly, accurately, and only in accordance with the student's authorizations?
- Did the residential academies reconcile its resident student accounts to the bank balances on a regular basis?

Minnesota State Residential Academies

To address these questions, we interviewed business office staff, reviewed select account transactions, and verified the completeness and accuracy of reconciliations.

We found that the academies' resident student funds were physically secure. The residential academies recorded the resident student financial activity promptly, accurately, and in accordance with the students' authorizations. The academies also reconciled resident student activity to the bank balances on a regular basis. However, a lack of separation of duties existed over the resident accounts, as explained in Finding 4.

4. The academies have assigned incompatible duties for resident student accounts.

Duties over the resident student accounts are not adequately segregated. Currently, one individual is responsible for writing the checks, preparing reimbursements, and reconciling bank statements. This individual also has access to signature stamps to authorize imprest account checks. These duties are incompatible and should be segregated to improve controls. An employee should not have complete control over all aspects of a financial transaction. Lack of proper segregation of duties increases the chance for both errors and irregularities to occur and go undetected. Department of Finance Operating Policy and Procedure 06:06:05 and MAPS Policy 0608-023 also requires that the monthly balancing of the checkbook be done by someone other than the person writing the checks.

Recommendation

- *The residential academies should separate check writing and reconciliation duties for the imprest cash accounts. In addition, administrative staff should review and sign the checks.*

MINNESOTA STATE RESIDENTIAL ACADEMIES



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September 11, 1996

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed materials represent the agency response to the audit report conducted at the Academy for the Deaf and the Academy for the Blind in July. The findings and recommendations were discussed with agency administrators in an exit conference on August 30, 1996.

The agency has already acted on three of the recommendations and intends to act on the final recommendation by December 31, 1996.

We would like to thank the Office of the Legislative Auditor for the manner in which the audit was conducted. We enjoyed working with the audit team.

Sincerely,

Elaine Sveen
MSAB Superintendent

Katherine A. Jankowski, Ph.D.
MSAD Superintendent

enclosure

1. PRIOR FINDING NOT RESOLVED: THE ACADEMIES HAVE ASSIGNED INCOMPATIBLE ACCOUNTING DUTIES TO EMPLOYEES RESPONSIBLE FOR TUITION REVENUE.

Recommendation

* The residential academies should separate the duties between the billing and receipt collection functions.

RESPONSE

A. The Human Resource Assistant will no longer process tuition billings. Since tuition billings are processed only in May, the position to be assigned this task is still to be determined. The Human Resource Assistant will receipt and deposit all tuition monies.

B. The Accounting Supervisor Sr. will continue to process billings for education aids but will not be involved in the actual receipt process. The Human Resource Assistant will receipt and deposit all education aids monies.

C. The Accounting Supervisor Sr. is responsible to implement the above responses.

2. THE ACADEMIES DID NOT DOCUMENT SHARED SERVICES AGREEMENTS IN WRITING.

Recommendation

* The academies should prepare written agreements to document the terms associated with exchanging services with other entities.

RESPONSE

A. The Superintendents of the Academies will have written agreements to document shared services.

3. THE RESIDENTIAL ACADEMIES HAVE ASSIGNED INCOMPATIBLE DUTIES FOR ITS PURCHASING AND RECEIVING FUNCTIONS.

Recommendation

* The residential academies should segregate its purchasing and receiving functions between two or more individuals.

RESPONSE

A. The Superintendents and the Accounting Supervisor Sr. are in agreement with the audit finding of separating the purchasing and receiving function but due to the size of the Academies and the staff available and the nature of the duties we have deemed it necessary to further review the best approach to achieve the desired outcome.

4. THE ACADEMIES HAVE ASSIGNED INCOMPATIBLE DUTIES FOR RESIDENT STUDENT ACCOUNTS.

Recommendation

* The residential academies should separate check writing and reconciliation duties for the imprest cash accounts. In addition, administrative staff should review and sign the checks.

RESPONSE

- A. The Accounting Supervisor Sr. or the Superintendents will review and sign all resident student account checks.
- B. The Account Clerk Sr. in payroll will perform monthly reconciliation.
- C. The Clerk Typist II will continue to perform the other duties associated with the resident student accounts.
- D. The Accounting Supervisor Sr. is responsible to implement the above responses.