Dakota County Technical College

Financial Audit
For Fiscal Year Ended June 30, 1996

November 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-43

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Dakota County Technical College

We have audited the Dakota County Technical College for the period July 1, 1995, through June 30, 1996, as further explained in Chapter 1. Our audit scope included: payroll, tuition and fee receipts, bookstore receipts and disbursements, Employment Training Center receipts and disbursements, as well as the purchases of supplies and equipment. 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. The standards also require that we design the audit to provide reasonable assurance that the department complied with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the department is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the Dakota County Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 6, 1996.

We thank the staff of Dakota County Technical College for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 9, 1996

Report Signed On: November 1, 1996

SUMMARY

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

Dakota County Technical College

Financial Audit
For Fiscal Year Ended June 30, 1996

Public Release Date: November 6, 1996 **No. 96-43**

Background Information

Dakota County Technical College operated as part of Intermediate School District No. 917 through June 30, 1995. The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. MnSCU merged 8 state universities, 21 community colleges, and 34 technical colleges, including Dakota County Technical College, into one common system. The mission of the Dakota County Technical College is to provide students with the collegiate level skills necessary to be successfully employed in occupations related to their training. The Chancellor of the Higher Education Board appointed David Schroeder as the president of the college as of July 1, 1995.

Audit Areas and Conclusions

Our audit scope included a review of tuition and fees, payroll, purchase of supplies and equipment, Employment Training Center receipts and disbursements, and bookstore receipts and disbursements for the period from July 1, 1995, through June 30, 1996. The audit fieldwork was conducted July 10 to August 9, 1996. The MnSCU books were not closed until September 27, 1996. The staff told us that many of the issues shown below have been resolved subsequently by the college.

At the time of the audit, the college had not reconciled the state depository bank account or the auxiliary checking account. The auxiliary account contains federal financial aid funds that should be transferred to the state as tuition receipts. In addition, the college has not timely reconciled the MnSCU accounting system to the state accounting system.

We noted weaknesses in the controls over recording, reconciling, collecting and depositing of tuition revenue. The staff told us these areas were addressed before year end closing on September 27, 1996.

Dakota County Technical College properly documented and approved the payroll transactions and paid employees the correct wages in accordance with the bargaining agreements in all material respects.

Dakota County Technical College generally complied with MnSCU purchasing policies and properly approved, documented, paid and recorded supplies and equipment expenditures. However, controls over blanket purchase orders need improvement. The college had not completed recording assets on the state system before the close of the fiscal year, but staff told us they subsequently completed recording the assets. It still has not taken a physical inventory.

Generally, we found that the Employment Training Center adequately documented disbursements and deposited receipts on a timely basis. However, we had concerns about the collection and untimely deposit of Economic Development Partnership program receipts.

Bookstore disbursements were reasonable, properly supported, paid in the proper amounts and properly recorded on MnSCU accounting records. Bookstore receipts, except for the approval of voided transactions, were properly accounted for and deposited on a timely basis.

Contact the Financial Audit Division for additional information.
296-1727

Dakota County Technical College

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Financial Management	3
Chapter 3. Tuition and Fees	7
Chapter 4. Payroll	11
Chapter 5. Purchase of Supplies and Equipment	13
Chapter 6. Employment Training Center	17
Chapter 7. Bookstore Operations	19
Agency Response	21

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA, CIA	Audit Manager
Carl Otto, CPA, CISA	Auditor-in-Charge
Sonya Hill, CPA	Auditor
Chege Ngigi	Auditor
Laura Peterson	Auditor

Exit Conference

We discussed the findings and recommendations with the following staff of the Dakota County Technical College at the exit conference held on October 9, 1996:

David Schroeder	President
Colleen Jackson	Director of Business Affairs
Peggy Skrogstad	Accounting Supervisor

Chapter 1. Introduction

Dakota County Technical College operated as part of Intermediate School District No. 917 in Rosemount through June 30, 1995. On July 1, 1995, the college became part of the Minnesota State Colleges and Universities System (MnSCU), a state agency. MnSCU began operations on July 1, 1995, when it merged 8 state universities, 21 community colleges, and 34 technical colleges, including Dakota County Technical College, into one common system. Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision 1 authorized the transfer of real property, personal property, improvements and attachments related to technical colleges to the state.

A Joint Powers Agreement exists between Dakota County Technical College and Intermediate School District 917, until the year 2005. This agreement describes the use and care of the property by the two parties. At the campus, the college and the school district both offer and provide training within the buildings and surrounding property. Under the joint agreement the technical college reimburses the school district for employee services in the accounting, personnel, payroll, and information systems departments. The school district, in turn, reimburses the technical college for plant operations, maintenance and janitorial services, garbage removal and other listed services.

The mission of Dakota County Technical College is to provide students with the collegiate level skills necessary to be successfully employed in occupations related to their training. On April 4, 1995, Dr. Jay Noren, Chancellor of the Higher Education Board, appointed David Schroeder as president of the college effective July 1, 1995.

The college offers 34 career majors in occupational fields, 18 applied science degrees in partnership with Inver Hills Community College, 64 diplomas and degrees available for one and two year technical majors, and 27 certificates in eight occupational fields.

The audit fieldwork was conducted July 10 to August 9, 1996. The MnSCU books were not closed until September 27, 1996

Table 1-1 shows the financial activity during the audit period on a cash basis.

Table 1-1
Dakota County Technical College
Summary of Financial Activity (Note 1)
Fiscal Year 1996

	Amount
Sources:	
Balance carried forward as fund balance from Independent School District No. 917	$ 1,845,937
State appropriation	8,031,135
Credit based tuition and fees, customized training tuition	3,311,119
Bookstore sales	626,144
ETC program grants	2,228,524
Other sources	2,743,884
Total Sources	$18,786,743
Uses:	
Payroll	$ 8,443,091
Supplies and equipment	2,304,186
Bookstore books and supplies	474,510
ETC aid to clients	707,679
Other uses	3,850,137
Total Uses	$15,779,603

Note 1: The information is on a cash basis, because the MnSCU system report was as of June 30, 1996, and did not include year end accruals.

Sources: General Ledger accounting report from MnSCU accounting system dated July 9, 1996.
Beginning fund balance taken from MnSCU Transition of Technical Colleges into State Government (Report No. 96-35), page 17.

Chapter 2. Financial Management

Chapter Conclusions

Dakota County Technical College had several fundamental problems in managing its basic financial systems. The college had not properly reconciled the state depository bank account or the auxiliary checking account. The auxiliary account contains federal financial aid funds that should have been transferred to the state as tuition receipts. In addition the college had not reconciled the MnSCU accounting system to the state accounting system and the state payroll system.

The MnSCU merger and new accounting systems compounded the difficulties faced by the technical colleges and the system as a whole. In August 1996 we issued an audit report (96-35) on the transition of technical colleges into state government. Chapter 2 of that report highlighted that MnSCU had not fully implemented its business systems to ensure the integrity of its transactions and to provide complete financial information. MnSCU management decided to develop centralized business systems to process financial transactions for its campuses. MnSCU developed uniform computerized systems for the accounting, payroll, and procurement functions. These new MnSCU systems had to interface with the new Department of Finance accounting and payroll systems called Minnesota Accounting and Procurement System (MAPS) and State Employee Management System (SEMA4). MnSCU needs to ensure the completeness and reliability of its financial information. In addition, MnSCU needs to ensure that its business systems properly interface with the Department of Finance's systems.

The merger required the training of many employees at both the campus level and the system office. Many of the employees at the technical colleges were not familiar with state regulations or with the new MnSCU or state accounting systems. Proper training of staff in these business systems is critical to ensure the reliability and proper interpretation of the financial information. The reconciliation workshops developed by the MnSCU board office were not held until April and August 1996. The late dates hampered timely reconciliations by the college.

The statewide accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. Campuses use the MnSCU accounting system to initiate transactions which involve appropriated funds. The MnSCU accounting system feeds these transactions to MAPS through a system interface. MAPS generates state treasury checks for state appropriated expenses. Campuses also administer funds in local bank accounts separate from the state treasury. MnSCU requires the recording of local activities on MnSCU accounting records. As discussed in Chapter 1, Independent School District No. 917 provides accounting, personnel, payroll, and informational systems services for the college.

Dakota County Technical College

Audit Objectives and Methodology

The primary objective of our review of Dakota County Technical College's financial management structure was to answer the following questions:

- Did the college properly reconcile its financial activities to the MnSCU and the Department of Finance business systems?

- Did the college properly handle the recording and reconciling of local bank accounts?

To answer these questions, we made inquiries of the college staff to gain an understanding of the accounting processes for receipts and disbursements and the recording and reconciliation procedures between the accounting systems.

Conclusions

At the time of the audit, the college had not verified the integrity of all financial information since it became part of MnSCU. It had not reconciled the state depository bank account or the auxiliary checking account as discussed in Finding 1. It also had not finished reconciling transactions recorded in the MnSCU accounting and payroll systems to transactions recorded on the state's accounting and payroll system, as discussed in Finding 2.

1. The college has not controlled its depository and local auxiliary checking accounts.

At the time of the audit, the college had not reconciled the state depository bank account or the auxiliary checking account. The auxiliary account contains federal financial aid funds that need to be transferred to the state as tuition receipts. The college had not timely reconciled the MnSCU accounting system to the state accounting system.

The college operates a local auxiliary checking account for depositing federal financial aid, bookstore receipts, and student activity fees. The college writes checks from this account. As reported in the MnSCU Transition of Technical Colleges into State Government audit report, Finding 13, the college did not record tuition and fee revenue offset with student financial aid onto the MnSCU accounting system, and subsequently has not transferred this money to the state. As of June 30, 1996, the auxiliary checking account had a balance of $997,700. In addition, the auxiliary checking account had not been reconciled to the bank statements since September 1995.

The school deposits tuition revenue into the state depository account. The state treasurer subsequently sweeps this money into the main state bank account. It is imperative that all revenue be accurately and timely recorded in MnSCU records to allow the state treasurer to sweep the funds. This account had not been reconciled; in reviewing the year end balance as of June 30, 1996, it was noted that the account had a balance of $506,163. The lowest balance in this account over the last two months was $264,866. College officials told us that the account contained some money belonging in the auxiliary checking account. The account must be reconciled and the money transferred to the state or the auxiliary account.

Recommendations

- *The college should complete the reconciliation of the auxiliary checking account. The college should transfer the tuition offset pertaining to federal financial aid to the state account.*

- *The college should complete the reconciliation of the state depository account. Any money erroneously deposited to this account should be properly deposited to the correct account.*

2. The college had not timely reconciled the MnSCU accounting or payroll systems to the state's accounting or payroll systems.

At the time of the audit, the college was in the process of reconciling transactions recorded on the MnSCU accounting system to transactions recorded on the MAPS accounting system. The accounting transactions from the first nine months of fiscal year 1996 had not been reconciled at that time. They completed this reconciliation as of July 31, 1996.

The MnSCU payroll data was not reconciled to the state's payroll system. College staff told us they tried reconciling the payroll data; however, the final determination of the correct funding appropriation account for the Employment Training Center was not determined until June 1996. The college staff also told us they did not post the MnSCU payroll data before reconciling the transactions, because it was suggested at the MnSCU payroll reconciliation workshop not to post payroll until it was reconciled. In addition, they said the board office did not enter account number identifiers in a timely manner. Timely reconciliations are an important control to detect transactions that did not interface properly and to ensure the integrity of the accounting and payroll systems.

Recommendations

- *The college should work with the MnSCU board office to ensure the proper reconciliation of transactions recorded on the MnSCU accounting and payroll systems to transactions recorded on the state's accounting and payroll systems.*

- *Payroll data should be posted timely to the MnSCU accounting system.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

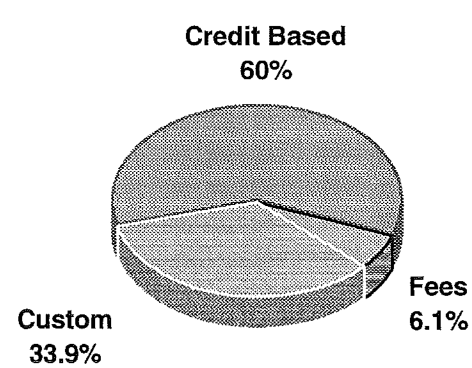
Dakota County Technical College has a number of problems with control over tuition revenue. The college did not verify the accuracy of tuition revenue recorded in its business systems and did not promptly deposit customized training tuition revenue. It also did not have an adequate separation of duties over the processing of tuition revenue.

Dakota County Technical College had two main sources of tuition revenue. One source was from credit based classes billed and collected through Multi-Campus Student Information System (MSIS). In fiscal year 1996 all technical colleges under MnSCU charged $40 per credit plus $0.75 per credit for miscellaneous fees.

Customized training courses represented the second source of tuition revenue at the college. The customized training department offered predesigned courses aimed at small businesses and individuals seeking certification. The department also provided custom designed courses for companies with unique human resource developmental needs. The customized training department invoiced and collected for about 80 percent of the customized courses. The remaining courses were recorded on and collected through MSIS.

Figure 3.1 shows the tuition revenue by source for fiscal year 1996.

Figure 3-1
1996 Tuition Revenue By Source



Source: General Ledger accounting report from MnSCU accounting system dated July 9, 1996.

Dakota County Technical College

Audit Objectives and Methodology

We focused our review of tuition and fee revenue on the following questions:

- Did Dakota County Technical College have an adequate system in place to properly bill, collect and deposit student tuition and fee revenue?
- Did Dakota County Technical College record tuition and fee revenue on MnSCU accounting system correctly?
- Did Dakota County Technical College deposit the tuition and fee revenue with the state treasurer timely?
- Did Dakota County Technical College reconcile the MSIS records to the MnSCU and MAPS accounting systems?

To meet these objectives we interviewed college personnel and reviewed the controls over tuition billing, collection, and depositing. We reviewed the accuracy of the tuition revenue recorded on MnSCU accounting system in comparison with the recorded credits on MSIS.

Conclusions

We found weaknesses in the controls over the recording, reconciling, collecting, and depositing of tuition revenue. The college recorded approximately $1.9 million for credit-based tuition, $1.1 million for customized training tuition, and $199,000 for fees on the MnSCU accounting system. The accuracy of these amounts was not verified, however, as discussed in findings 3, 4, and 5.

3. Dakota County Technical College did not verify the accuracy of tuition revenue recorded on its business system.

Dakota County Technical College used MSIS for registering, billing, collecting and maintaining accounts receivable for credit and hour based tuition revenue. The college did not perform the necessary reconciliations to ensure that tuition credits registered on MSIS equaled tuition collected on MSIS. We were told MSIS technical documentation originally was insufficient. The college is working to develop model reports to aid in the reconciliation process. The college also did not reconcile MSIS to the MnSCU accounting system and MAPS. We attempted to reconcile MSIS to the MnSCU system, but found the amount posted to MSIS exceeded the amount posted to the MnSCU system by $126,712.

In addition, a person independent from billing and collecting did not reconcile the customized training course sales to the tuition revenue collected and recorded on the MnSCU system and MAPS. The lack of independent reconciliations increases the risk of errors or irregularities occurring and going undetected.

Recommendation

- *Dakota County Technical College should conduct necessary reconciliations on a timely basis to ensure the accuracy of the information on its accounting systems.*

4. Dakota Technical College did not promptly deposit the customized department tuition revenue.

Dakota County Technical College did not deposit customized training department's tuition revenue daily. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily if they total $250 or more. The customized department billed and collected tuition revenue for customized classes. The department placed the receipts in a safe deposit box, and subsequently, sent the receipts to the business office for deposit. Tuition revenue collected by the department between April 22 and May 21, 1996, totaled to $95,194 and was not deposited until May 22, 1996. Daily deposit of incoming receipts minimizes the risk that funds could be lost or stolen.

Recommendation

- *The college and the customized training department should ensure that all receipts are properly handled and deposited in a timely manner as required by state law, or seek waivers from the Department of Finance.*

5. Dakota Technical College did not have adequate separation of duties over tuition revenue.

Some employees at Dakota County Technical College performed incompatible revenue functions. One employee in the customized training department was responsible for registering, billing and collecting tuition revenue. For credit based tuition, two employees in the business office were responsible for billing and collecting tuition revenue and for posting payments to the accounts receivable system. One employee also was responsible for counting the cash collected for the day, reconciling the cash drawer, and preparing the day's tuition receipts for deposit.

With the same employee billing, collecting, posting payments on the accounts receivable system, reconciling and counting the cash collected, errors and irregularities could occur and go undetected.

Recommendation

- *Dakota County Technical College should assign the registering, billing and collecting functions to different employees in both the customized training and business offices. The college also should have an employee independent of the collection function count the cash and reconcile the cash drawer in the business office.*

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Chapter 4. Payroll

Chapter Conclusions

Dakota County Technical College accurately paid, recorded, and retained documentation for payroll expenditures. Payroll expenditures complied with rules and regulations. We reviewed the college's payroll during our audit of the Minnesota State Colleges and Universities Transition of Technical Colleges into State Government and identified some problems, which have been corrected. The college has completed updating leave balances for fiscal year 1996 and continues to post the leave currently. The accounting supervisor now authorizes the payroll certification reports.

Dakota County Technical College employed 545 staff during fiscal year 1996, and the average payroll for a two week period was nearly $400,000. Table 1-1 shows the payroll for fiscal year 1996 as $8,443,091. The following compensation plans cover the college's employees: Minnesota State Employees AFSCME Union, Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Excluded Administrators Plan, and United Technical College Educators Plan.

The college had a separate personnel department. The personnel department was responsible for maintaining employees' appointments, personnel files, and pay rates. The payroll department was responsible for collecting the employees' timesheets, communicating the hours worked to the Minnesota State Colleges and Universities System's(MnSCU) board office, and accounting for employees leave accruals. During fiscal year 1996 the MnSCU board office entered the hours college employees worked into the state's personnel/payroll system (PPS).

During our audit of the MnSCU Transition of Technical College into State Government, auditors reviewed the Dakota County Technical College payroll area to:

- determine if MnSCU properly classified its employees and established proper employee rate of pay on the state payroll system, and
- determine if the transfer of personnel complied with the state law and the employee bargaining agreements.

During that audit, we found that:

- The college did not update its employee leave balances for fiscal year 1996.
- No one independently reviewed payroll certification reports to ensure they contained only authorized payroll expenditures.

Dakota County Technical College

Audit Objectives and Methodology

The primary objectives of our review was to answer the following questions:

- Was the internal control structure relating to payroll processing adequate?
- Were timesheets adequately documented and approved, and were the correct pay rates used in determining payments to staff?
- Was the college complying with the salary requirements of the related bargaining agreements?

To answer these questions, we made inquiries of the college staff to gain an understanding of the accounting processes for payroll, and analytically reviewed payroll disbursements. We also tested a sample of payroll expenditures to ensure the college had adequate supporting documentation, properly recorded the transactions in PPS and MAPS, paid the correct amount, and complied with the bargaining agreements. The work referred to in this chapter expanded on the work done during the transitional audit.

Conclusions

Generally, we found that Dakota County Technical College properly documented and approved the payroll transactions and paid employees the correct wages in accordance with the bargaining agreements in all material respects. In following up on the problems identified in the transition report, the college staff explained to us that they had completed updating leave balances for fiscal year 1996 and continued to post the leave currently. The accounting supervisor authorizes the payroll certification reports, beginning with fiscal year 1997.

Chapter 5. Purchase of Supplies and Equipment

Chapter Conclusions

Dakota County Technical College complied with MnSCU's purchasing policies. Also, the college properly approved, documented, paid, and recorded supplies and equipment expenditures, except that controls over blanket purchase orders needed improvement. The assets that were transferred to the state during the transition had not included in the state's fixed asset system.

During fiscal year 1996 the college purchased over $1.2 million of supplies (excluding bookstore supplies) and nearly $1 million of equipment. Minnesota State Colleges and Universities (MnSCU) issued purchasing policies that the college followed when making purchases.

To purchase supplies and equipment employees completed a purchase requisition form. A supervisor reviewed the request and approved the purchase. A budget balance was verified and requisitions approved by the Director of Business Affairs. The purchasing department placed the order with the vendor. The warehouse clerk received and signed for the goods, documented the items received, sent the documentation to the accounting department, and delivered the goods to the requesting area. The accounting department processed the vendor payment on the MnSCU accounting system.

The college tracks new equipment purchased subsequent to July 1, 1995, on the state's Fixed Asset Network System (FANS). During fiscal year 1996, the college recorded assets over $500 on FANS. Prior to July 1, 1995, the college recorded fixed assets on Independent School District 917's system. The college staff were in the process of converting assets on that system to FANS. The college normally takes a physical inventory each spring, but the last inventory was May or June 1995. MnSCU has formed a user team to develop inventory policies and procedures and to develop a new automated inventory system specifically for the state's colleges and universities. We did not perform a review of the college's equipment as part of our audit.

Audit Objectives and Methodology

The primary objectives of our review were to answer the following questions:

- Was the internal control structure relating to the purchasing of supplies and equipment adequate?

- Were supplies and equipment expenditures adequately documented and approved, and was the correct amount paid?

- Did the college comply with MnSCU purchasing policies and procedures?

To answer these questions, we made inquiries of the college staff to gain an understanding of the purchasing process. We also tested a sample of supplies and equipment expenditures to ensure the college had adequate supporting documentation, properly recorded the transactions in the MnSCU system and MAPS, paid the correct amount, and complied with MnSCU purchasing policies.

Conclusions

Dakota County Technical College complied with MnSCU purchasing policies. It properly approved, documented, paid and recorded supplies and equipment expenditures with the following exceptions. The controls over blanket purchase orders need improvement as discussed in Finding 6. The assets that were transferred to the state during the transition still are not included in the state's fixed asset system, as discussed in the beginning section of this chapter.

6. The controls over the college's blanket purchase orders were weak.

The college issued blanket purchase orders mainly to assist employees in the supermarket and parts counter programs in placing orders with vendors. For these purchases, a standard purchase requisition form was not used. The employee submitted a purchase order list to the purchasing department. The list did not require any supervisor approval. The purchase order list included the vendors' name, the maximum amount to be purchased, and the time period of the purchase order. The purchasing department then issued the requested blanket purchase orders. The purchasing department also entered the purchase orders into the MnSCU and state accounting system to encumber the funds. An example of the magnitude of the problem is the purchase order list for Dakota County Supermarket for fiscal year 1997 totaling approximately $362,000 for 14 different vendors.

The college's accounting department has been providing a weekly budget report to the program directors. However, the individual programs did not track the number of purchases and/or payments made against the blanket purchase orders. The purchase order included a note to the vendor requesting that the vendor notify the college's buyer when the actual purchases against the blanket purchase order equaled 90 percent of the purchase order amount. The college accounting department also could provide directors with an open encumbrance report.

We also found that the same employee in the supermarket program was ultimately responsible for placing the order with the vendor, checking in the goods when delivered, and approving the invoice for payment. When the supermarket placed the order with the vendor, the amount the college could expect to pay was not communicated to the accounting department. Instead, the vendor invoice was sent with the delivered goods, and the employee from the supermarket verified that all goods listed on the invoice were received and the prices on the invoice were correct, but failed to communicate this information to the accounting department.

Good internal controls require proper approval of purchases to ensure the goods are necessary for efficient operation. They also require accurate tracking of spending on purchase orders to ensure the maximum is not exceeded. Finally, they require proper separation of duties between the purchasing, receiving, and payment approving functions. When these functions are done by the same individual, the risk of errors and irregularities going undetected increases.

Recommendations

- *The college should ensure the blanket purchase orders are properly approved.*
- *The employee placing the order with the vendor should establish an understanding of control with the accounting department to ensure the vendor is not overpaid.*
- *The warehouse staff, instead of the program staff, should be responsible for checking in the delivered goods.*

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Chapter 6. Employment Training Center

Chapter Conclusions

We found that Employment Training Center disbursement controls were adequate except for disbursements through October 1995. We found that receipt controls were adequate except for the collection and untimely deposit of Economic Development Partnership receipts.

The technical college houses the Employment Training Center. The center runs federal, state, and county programs to help dislocated workers. The majority of funding was through Dakota County, Board of Commissioners and the Workforce Council. As shown in Table 1-1, program grants were $2,228,524 and aid to clients was $707,679. Other costs were included with the college operating categories. A contract between the center and the county existed for each sponsored program. Several of the programs were Job Training Partnership Act (JTPA), Success Through Reaching Individual Development and Employment (STRIDE), Fair Share, and Economically Dislocated Workers Adjustment and Assistance (EDWAA). These contracts described the funding level, program budget for administrative and client services, reporting requirements and cost reimbursement requirements. The center processed administrative expenditures through the MnSCU accounting system and used the imprest cash fund for client payments. Various policies governed the types of support and training payments for clients, such as payments for training; transportation costs, such as bus fares, gasoline, repairs, and insurance; tools; clothing; family care; and counseling.

Counselors determined the services a client was eligible to receive and prepared payment authorizations. The center director or contracts manager approved payment authorizations. The business office prepared and signed the checks and returned the checks to the center. Through October 1995, the counselors mailed the checks to the clients. The college suspected one employee of diverting checks to personal use. In October 1995, this evidence had been turned over to the Dakota County Attorney's Office. Since October 1995, the college changed procedures by having the center receptionist mail the checks to clients. The counselors received a copy of the client check for their files. Approximately 2,600 checks were issued during fiscal year 1996.

The business office recorded payments associated with center sponsored programs on the MnSCU accounting system. On the basis of this accounting information the center requested reimbursements from the county for each program. The business office received the reimbursement receipts. However, another program associated with the center, the Economic Development Partnership Program, received private grant receipts and was to send them promptly to the business office for deposit.

Dakota County Technical College

Audit Objectives and Methodology

The primary objective of our review was to answer the following questions:

- Was the internal control structure relating to center receipts and disbursements adequate?
- Were receipts and disbursements adequately documented, appropriately approved, and properly recorded on MnSCU records?

To answer these questions, we made inquiries of the college staff to gain an understanding of the accounting processes for center receipts and disbursements. We also tested a sample of receipts and disbursements to determine if the college had adequate supporting documentation and properly recorded the transactions in the MnSCU system.

Conclusions

We found that disbursement controls were adequate, except as noted above for disbursements through October 1995. We found that receipt controls were adequate, except for the collection and untimely deposit of Economic Development Partnership receipts, as discussed in Finding 7.

7. The college did not properly control or promptly deposit Economic Development Partnership program receipts.

The Economic Development Partnership program coordinator solicited and received checks to operate the program. The coordinator did not send the receipts timely to the business office for deposit. An example was a $24,000 check received on January 31, 1996, but not deposited until May 3, 1996. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily if they total $250 or more. Daily deposit of incoming receipts minimizes the risk that funds could be lost or stolen.

Another problem with processing the receipts concerned segregating staff duties. To strengthen controls and prevent errors, the coordinator requesting funds must not receive the checks. These receipts are to be given directly to the business office.

Recommendations

- *The college and the center should ensure that all receipts are deposited in a timely manner as required by state law.*
- *The college and the center should ensure the proper segregation of duties in processing receipts.*

Chapter 7. Bookstore Operations

The Dakota County Technical College bookstore properly accounted for receipts generated by sales of textbooks, supplies, and apparel except for approving voided transactions. The bookstore made deposits on a timely basis. The business office recorded these receipts on the MnSCU system timely and accurately. Bookstore disbursements were properly supported, documented, and reasonable. Bookstore disbursements were paid in the proper amounts and recorded accurately on the MnSCU records.

The Dakota County Technical College bookstore sold textbooks, safety equipment, apparel, and other miscellaneous supplies. Bookstore sales were rung through the cash register in the bookstore. At the end of the day, the cash register was closed out and receipts were locked in the safe until the next day. The acting bookstore manager reconciled the sales recorded on the register tape to daily receipts. The manager also distinguished between the taxable and nontaxable sales and calculated the corresponding sales tax amount. Many accounts, including the bookstore, were commingled into one auxiliary account, which was maintained in a private bank account and not the state treasury.

Business office personnel obtained the daily reports and recalculated the accuracy of the sales tax amounts shown on the reports. They posted the sales tax amounts as well as the taxable and nontaxable sales onto MnSCU accounting records. The largest category of bookstore expenditures was purchases of new books. Other bookstore purchases included noncourse books and magazines, school supplies, and other supplies. During fiscal year 1996, the bookstore generated an estimated profit of $24,215, as shown in Table 7-1.

Table 7-1
Bookstore Income Statement
Fiscal Year 1996

Description	Amount
Sales	$629,583
Cost of goods sold	519,001
Gross Profit	110,582
Expenses	86,367
Net Income	$ 24,215

Note: The amounts are unaudited. We did not do all the work necessary to verify the totals shown above; our audit objectives are listed on the next page.

Source: Fiscal year 1996 Dakota County Technical College accounting records as of September 30, 1996.

Dakota County Technical College

Audit Objectives and Methodology

We focused our review of receipts and disbursements on the following objectives:

- Did the bookstore properly account for bookstore receipts and deposit those receipts on a timely basis?
- Were bookstore receipts accurately and timely recorded on the MnSCU system?
- Were bookstore disbursements properly supported, paid in the proper amounts, and reasonable?
- Were bookstore disbursements recorded properly on the MnSCU system?

We interviewed college bookstore and business office staff to determine how receipts and disbursements were processed and the roles played by the different college personnel in the process. We did substantive testing of receipts generated by daily sales activity in the bookstore. We also performed detailed testing of bookstore disbursements.

Conclusions

Bookstore disbursements were reasonable, properly supported, paid in the proper amounts and properly recorded on the MnSCU accounting records.

Bookstore receipts, except for the approval of voided transactions as discussed in Finding 8, were properly accounted for and deposited on a timely basis.

8. The college bookstore did not have adequate approval for voided transactions.

The bookstore clerks did not initial voided transaction slips. Therefore, when reviewing sales and voids at the end of the day the manager would not know which cashier rang up the voided transaction. Bookstore sales were recorded on a cash register by various clerks. Without the proper sales information to analyze voided transactions, errors or irregularities may go undetected. In addition, higher dollar void amounts need approval by an independent person. This would provide additional assurance that the void was valid.

Recommendation

- *To improve control over voided transactions the cashier should sign off on each voided transaction. Higher dollar voids should require approval by an independent person at the time of the transaction.*

Dakota County
Technical College
Founded 1970

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October 28, 1996

Mr. Warren Bartz, Audit Manager
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Bartz:

We appreciate the opportunity to review and make recommendations to the draft audit report. We realize that this whole process has been difficult for everyone and we appreciate your patience and concern for an accurate presentation.

We wish to provide the following responses to your comments:

Chapter 2 - Financial Management

Recommendations

The college should complete the reconciliation of the auxiliary checking account. The college should transfer the tuition offset pertaining to federal financial aid to the state account.

The college should complete the reconciliation of the state depository account. Any money erroneously deposited to this account should be properly deposited to the correct account.

Response

The college completed the reconciliations prior to the completion of the field work at the end of August 1996. The problem with the deposits of tuition revenue in the state depository account ties back to the difficulty we had and continue to have with MSIS (Multi-Campus Student Information System). Two outside experts in this area will be on campus on October 31 to help us define the solutions to receiving accurate information from the system. Automatic posting of each payroll has been put into practice for FY97 by the system office.

Chapter 3 - Tuition and Fees

Recommendations

Dakota County Technical College should conduct necessary reconciliations on a timely basis to ensure the accuracy of the information on its accounting systems.

The same response applies to this recommendation as in Chapter 2.

Recommendations

The college and the customized training department should ensure that all receipts are properly handled and deposited in a timely manner as required by state law, or seek waivers from the Department of Finance.

Response

The College and customized training have taken steps to ensure that all receipts are properly handled and deposited in a timely manner as required by state law. We are looking at the possibility of seeking a waiver from the Department of Finance to cover delayed deposits that may occur in customized training.

Recommendations

Dakota County Technical College should assign the registering, billing and collecting functions to different employees in both the customized training and business offices. The College also should have an employee independent of the collection function count the cash and reconcile the cash drawer in the business office.

Response

The College has put into place procedures to ensure separation of duties among the functions of the employees responsible for tuition revenue.

Chapter 5 - Purchase of Supplies and Equipment

Recommendations

The college should ensure the blanket purchase orders are properly approved.

The employee placing the order with the vendor should establish an understanding of control with the accounting department to ensure the vendor is not overpaid.

The warehouse staff, instead of the program staff, should be responsible for checking in the delivered goods.

Response

The Business Office will provide administrators with an open encumbrance report to enable them to more closely monitor purchase orders.

Heretofore, blanket purchase orders must be signed by the supervisors before they are processed.

The warehouse staff will be responsible for checking in all delivered goods including those for the supermarket.

Chapter 6 - Employment and Training Center

Recommendations

The college and the center should ensure that all receipts are deposited in a timely manner as required by state law.

The college and the center should ensure the proper segregation of duties in processing receipts.

Response

All revenue is being channeled through the Contracts Coordinator and is deposited in a timely manner with the Business Office.

Chapter 7 - Bookstore

Recommendations

To improve control over voided transactions the cashier should sign off on each voided transaction. Higher dollar voids should require approval by an independent person at the time of the transaction.

Response

All voided transactions are being initialed by the cashier responsible for the transaction and high dollar voids are being dually signed.

We thank you again for the opportunity to respond to your report.

Yours truly,

David Schroeder

David Schroeder
President