Minneapolis Community and Technical College

Financial Audit
For the Period July 1, 1995, to December 31, 1996

May 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-23

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Minneapolis Community and Technical College

We have audited Minneapolis Community and Technical College for the period July 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included the following areas: general financial management, tuition and other revenues, bookstore revenues and expenditures, payroll expenditures, purchases and operating expenditures, and the federal grant for the Air Traffic Control Center. We also reviewed the college's internal controls over federal student financial aid for fiscal year 1997. 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 auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Minneapolis Community and Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of Minneapolis Community and Technical College 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 Minneapolis Community and Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 2, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 14, 1997

Report Signed On: April 25, 1997

SUMMARY

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Minneapolis Community and Technical College

Financial Audit
For the Period July 1, 1995, to December 31, 1996

Public Release Date: May 2, 1997 No. 97-23

Background

Minneapolis Community and Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Minneapolis Community College and Minneapolis Technical College in February 1996 to form one combined college. The community college and the technical college continued to operate and record financial activity as separate entities until July 1, 1996, when they began to consolidate operations.

Dr. Diann Schindler, the president of Minneapolis Community College since September 1995, assumed responsibilities as the first president of the consolidated campus. Dr. Schindler resigned her position on February 21, 1997. The college is currently headed by an interim president, Mr. Phillip Davis.

The college finances its operations through student tuition, fees, and state appropriations. It also receives funding from the Minneapolis Community and Technical College Foundation (foundation), a separate, non-profit organization.

Our audit scope covered the period from July 1, 1995, through December 31, 1996. We audited general financial management controls, bookstore revenues and expenditures, tuition and fees revenue, other revenue, purchases and administrative expenditures, payroll, and a federal grant for the air traffic control program. We also audited the administration of the federal student financial aid program for fiscal year 1997. In addition, we reviewed the college's relationship with the foundation.

Conclusions

The overall financial management and control at the college during the audit period was weak. The consolidation of the community college and the technical college, a high turnover of staff in key financial management positions, and poor cash management practices contributed to the financial management problems. Also, the college did not fully implement all of the recommendations related to financial controls that we presented in prior audit reports.

We noted significant concerns with financial controls at the college. The college is not current with posting its financial activity to the MnSCU accounting system. The college is also not reconciling its bank accounts timely. The college did not know the balance or components of local bank accounts to properly certify a carryforward balance for fiscal year 1996.

We cannot provide assurance that all cash sales from bookstore operations were deposited or if all financial activity was properly recorded in the accounting systems. The college had no controls to provide assurance that cash collections from resale activities, parking ramp, and other miscellaneous revenues were safeguarded or properly recorded in accounting records. In addition, weak controls over payroll resulted in overpayments to employees, while other employees were not paid timely.

The college ended fiscal year 1996 with more revenues than expenditures. The college continued to make payments toward resolving the community college's prior years fiscal deficits. The college also improved the relationship with its foundation.

Minneapolis Community and Technical College

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Michael Hassing	Audit Director
Mark Mathison, CPA	Auditor
Marina Mirman	Auditor
Chege Ngigi	Auditor
Pat Ryan	Auditor

We discussed the findings and recommendations with the following staff of Minneapolis Community and Technical College and the MnSCU system office at an exit conference held on April 14, 1997:

MnSCU System Office:

Laura King	Vice Chancellor - Chief Financial Officer
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Minneapolis Community and Technical College:

Eric Radtke	Vice President Finance and Operations
Marie Peterson	Business Office Manager

Chapter 1. Background Information

Minneapolis Community and Technical College (MCTC) is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Minneapolis Community College and Minneapolis Technical College in February 1996 to form one combined college.

Dr. Diann Schindler, the president of Minneapolis Community College since September 1995, assumed responsibilities as the first president of the consolidated campus. Dr. Schindler resigned her position on February 21, 1997. The college is currently headed by an interim president, Mr. Phillip Davis.

The college finances its operations primarily from state appropriations and student tuition and fees. The MnSCU system office allocates a portion of the systemwide appropriation to the individual colleges based on a formula. The college is responsible for collecting tuition and fees from students. The total of appropriations and local receipts establishes the spending authority for the college. Table 1-1 provides a summary of the college's sources of funds from state allocations and student tuition and fees for the fiscal year ended June 30, 1996.

Table 1-1
Primary Sources of Funds
Fiscal Year Ended June 30, 1996

	MCC	MTC
State Allocation	$8,157,680	$7,866,510
Tuition (Net of Refunds)	$5,572,927	$3,304,395
Fees	710,846	329,883
Total Tuition and Fees	$6,283,773	$3,634,278

Source: Auditor prepared from MnSCU Accounting.

The community college and the technical college also generated revenues from bookstore sales during fiscal year 1996 totaling $1,375,003 and $538,999 respectively. The average full-year equivalent (FYE) enrollment per quarter for the community and technical college during fiscal year 1996 was 2,588 and 1,649 respectively.

Despite being consolidated in February 1996, the community college and technical college continued to operate as separate entities for the remainder of fiscal year 1996. Each college operated a separate business office, financial aid office, and bookstore. The entities separately accounted for financial operations both on the MnSCU accounting system and on the state's new accounting and procurement system (MAPS) for instructional and operational activities recorded in the state treasury. The colleges accounted for other activities, such as federal financial aid and bookstore transactions, through local records and bank accounts. The college's largest expenditure was for payroll. Table 1-2 shows the college's fiscal year 1996 payroll and administrative expenditures.

Table 1-2
Payroll and Administrative Expenditures
Fiscal Year 1996

Expenditure:	MCC	MTC
Payroll (1)	$12,688,392	$10,601,681
Administrative Expenditures (2)	2,881,251	3,181,843

Source: (1) Auditor prepared from MAPS.
(2) Administrative expenditures include operating expenses, supplies, materials, and equipment. See Chapter 5. Auditor prepared from MnSCU Trial Balance report of January 24, 1997.

The colleges also processed federal financial aid payments to students for Pell Grants, SEOG Grants, and federal work-study programs totaling $2,725,445 and $2,133,860 for the community and technical college respectively. In addition, each college disbursed Stafford loan funds on behalf of third party lenders of $2,952,265 and $2,009,856. The college reported these federal aid expenditures on its 1996 Fiscal Operations (FISAP) report, as further explained in Chapter 8.

The two colleges began to combine their operating functions at the beginning of fiscal year 1997. The college has four operating divisions: Academic Affairs, Student Affairs, Finance and Operations, and Operations and Planning. The Finance and Operations Division is responsible for the financial affairs of the college and includes the business office, purchasing section, bookstore, and the personnel office. The business office has a manager and nine employees, and the purchasing section has a manager and three employees. The business office handles cashiering, accounts receivable, and payroll. The purchasing section, physically located outside of the business office, performs purchasing and accounts payable functions. All financial activity is recorded in MnSCU accounting as one entity. The college has three checking accounts to account for local activity: general operations, federal financial aid, and tuition refunds.

Minneapolis Community and Technical College is affiliated with the Minneapolis Community and Technical College Foundation, an autonomous, non-profit organization. Like the community college and technical college, the foundations of each respective institution also were combined. The foundation offers scholarships and funds for other activities which benefit the educational mission of the college. The foundation is audited by a private CPA firm.

Chapter 2. Financial Management

Chapter Conclusions

Minneapolis Community and Technical College (MCTC) had a poor system of internal control over its financial management practices during the audit period. The college did not reconcile bank accounts timely, did not ensure that financial activity was properly recorded in the accounting records, and did not adequately safeguard assets or financial records. The college also had high turnover in key financial management positions and did not fully implement prior audit recommendations.

The college continued to struggle with its overall financial management. The college went through a major effort to consolidate Minneapolis Community College and Minneapolis Technical College since our last audit. The combined college began using the new MnSCU and state accounting systems for recording financial activity. In early fiscal year 1997, the college assembled an experienced financial management team. It is essential, however, for the college to maintain a strong commitment to sound financial management practices and continuity in key personnel in order to improve financial controls and processes. A strong system of control is necessary for the college to safeguard assets and to provide reliable financial information for decision making.

The college receives funding from the state and through the collection of local receipts, such as tuition and bookstore revenue. MnSCU allocates appropriated funds to individual colleges for both instructional and non-instructional operations. The current instructional allocation is based on a formula which incorporates a two-year enrollment lag to arrive at annual allocations (there are proposed changes to the allocation formula). The college retains tuition and other local receipts to arrive at its authorized spending level.

MCTC administration has the ultimate responsibility for financial planning, budgeting, and spending decisions. It is the college's responsibility to develop and adhere to a budget that is fiscally sound. The current budget is impacted by the $361,000 fiscal year 1995 operating deficit incurred by Minneapolis Community College (MCC). MCC worked with the former Community College system office to develop a deficit repayment plan. The plan, which went into effect for fiscal year 1997, reduces the college's allocation by $100,000 per year until the balance is resolved.

The college's process for monitoring the budget involved various levels of management, including the president. The college discussed budget and spending information at weekly cabinet meetings. We were told, however, that the college administration could not obtain reliable financial information necessary for critical management decisions. As a result, the former college president told us she made personnel changes in Finance and Operations at the start of fiscal year 1997. The college is working to resolve its financial reporting problems as further discussed in Finding 1.

The basis for the college's financial information during fiscal years 1996 and 1997 was the MnSCU accounting system. The college consolidated the reporting of financial activity during fiscal year 1997, while the community college and technical college reported separately for all of fiscal year 1996. The college's state treasury financial activity is also recorded on MAPS. The MnSCU system office has been reconciling MnSCU accounting with MAPS for the college. The college will eventually become responsible for the reconciliation.

In addition, the community college accounted for its other activities, such as federal financial aid and bookstore operations, through local records and bank accounts. The technical college used an AS-400 computer system to process student registrations and to record its local activity for the bookstore and financial aid. The AS-400 system crashed in April 1996 and certain detailed transaction information was destroyed. We talked to a number of college staff from both the business office and information system office about the system crash. College staff told us that the crash was the result of an old system that was overloaded with information, but that it had not previously crashed. They acknowledged that certain detailed transaction information was lost and that the system was inoperable for a period of time. However, they could not specify detailed data files or tables lost, or identify the actual time the system was down. Therefore, we cannot rely on the financial activity recorded on the AS400 system from April 22 through June 1996. The technical college discontinued using the AS-400 system at the start of fiscal year 1997. The completeness, accuracy, and reliability of its business systems is critical to the proper management of the college.

A fundamental component of a strong financial management structure is a knowledgeable staff. The college continued to experience a high level of turnover in administrators. From 1990 to 1995, the college had three presidents, one interim president, three deans of administration (chief financial officer), and four business office managers. This does not include turnover of other business office staff or other college administrators. During the current audit period, the college had three business office managers and two vice presidents of finance. The president appointed four vice presidents to the administrative cabinet upon consolidation of the two colleges in February 1996. The president dismissed two members of the original cabinet, including the vice president of finance by July 1996. In addition, the president resigned in February 1997, leaving the college under an interim president once again. The lack of continuity of staff is disruptive to the implementation of an effective financial management structure.

We focused our efforts in addressing the following questions regarding the college's overall financial management:

- Did the college have a sufficient process for developing its budget and monitoring actual financial operations?
- Were college financial activities properly recorded on the MnSCU and MAPS accounting systems?
- Did the college properly account for and control local bank accounts?

To meet these objectives, we reviewed the college's overall budgeting process and the controls over cash management, safeguarding of assets, and recording of financial transactions. We tested transactions as part of the individual program areas discussed later in this report. We also followed up on the status of our prior audit recommendations.

Generally, we found the college had weak financial management controls. As reported in Finding 1, the college did not perform fundamental controls such as timely posting of transactions and completing bank account reconciliations. The college has made progress toward implementing some of our prior audit recommendations related to financial management as reported in the 1995 MCC audit, including addressing the deficit and eliminating its tuition deferment practices. However, the college did not implement other prior audit recommendations, including three of the recommendations related to financial management.

1. Minneapolis Community and Technical College needs to improve its overall financial management.

The college had a weak system of internal controls over its financial management processes. We identified significant concerns pertaining to overall financial management in the following areas in which the college:

- had not determined the fiscal year 1996 carryforward balance for the former technical college;
- was not current in posting financial transactions to MnSCU accounting;
- had not completed bank account reconciliations timely;
- did not adequately safeguard its financial records; and
- did not properly control access to its financial accounting systems.

Chapters 3, 4, 6, and 8 contain additional information related to these issues.

At the time of our audit, the college could not determine its ending fiscal year 1996 balances available for carryforward into the next year. MCTC could not identify the source or availability of technical college funds in local bank accounts. The college ultimately hired a consultant to assist in determining the status of bank account balances available for carryforward. Prior year carryforward amounts represent an important component of the budget development process.

We found that the college was not current in posting its financial transactions to the MnSCU accounting system. The college had not posted the following financial activity to MnSCU:

- For fiscal year 1996:
  - $1,800,000 of payroll activity
  - $ 200,000 of bookstore activity
- For fiscal year 1997:
  - $ 500,000 of payroll activity
  - $ 567,000 of non-personnel bookstore activity

These differences were apparent on the reconciliation prepared by the MnSCU system office. We also noted that the college did not always use the same coding in the accounting system for similar transactions. Incomplete and inconsistent data negatively impacts management's ability to make key financial management decisions.

The college did not complete reconciliations of the bank accounts for the All-College account and the bookstore in a timely manner. As of January 1997, the business office had not reconciled various checking accounts since August 1996. The college also did not control the bookstore's electronic bank requests for cash. Reconciliations are a key internal control to detect and prevent errors and irregularities. These controls are vital to managing cash effectively and providing accurate financial information.

We also noted that the college did not adequately safeguard all of its financial records and supporting documentation. We observed that the college did not secure several confidential documents. It appeared that some records, such as checks and bank statements, were displaced as the result of reorganization of offices as part of the consolidation. As another example, the college found over $8,400 of checks in the desk of the former finance director. The checks were state warrants, MnSCU checks, local checks, and even checks from third party vendors payable to the college. The security and filing of these records made it difficult to assess the accountability of all financial records.

As previously discussed, the AS-400 accounting system used by the technical college crashed in April 1996. We were concerned about the accuracy and reliability of data produced by the system. On April 3, 1996, prior to the crash, the college provided a ninety day notice that the finance director's position was being eliminated. The college did not restrict the finance director's access to the system following the termination notice. According to college staff, the finance director was the only person who understood the AS-400 system. We obtained a sworn statement from the former vice president of finance who explained the circumstances surrounding the system crash. He indicated that the system had a recent history of being unstable and the college was in the process of transferring records to other systems. Other college employees affirmed the former vice president's explanation. The college incurred unnecessary risk by not restricting the director's system access following the termination notice.

The current college administration and business office staff inherited a weak system of financial controls. They are working to strengthen controls and to provide more timely and accurate financial information.

Recommendations

- *The college must strengthen financial controls to provide timely and accurate financial information and to safeguard assets of the college by performing control procedures such as:*
  - *-- performing complete and timely reconciliations of all checking accounts and subsidiary ledgers;*
  - *-- recording and posting all accounting transactions promptly;*
  - *-- properly securing and safeguarding the assets of the college, including cash and financial records; and*
  - *-- restricting access to accounting, personnel, and other computer systems to only those individuals requiring access to complete their job responsibilities.*
- *The college should determine and document the disposition of $8,400 of undeposited or outstanding checks and promptly record the appropriate accounting transactions.*

Chapter 3. Bookstore Revenues and Expenditures

Chapter Conclusions

Minneapolis Community and Technical College (MCTC) designed internal controls to provide reasonable assurance that bookstore revenues were complete, adequately safeguarded, and accurately recorded in the accounting records as of December 1996. We found, however, that the bookstore's process of obtaining funds for book buy backs and change funds needs improvement.

Bookstore expenditures were reasonable and properly authorized. We found, however, that MCTC did not record bookstore expenditures in the accounting records promptly. The college adequately safeguarded and accurately recorded bookstore inventory in the accounting records.

We cannot provide any assurance as to the accuracy of the financial information related to the technical college bookstore activity for fiscal year 1996. Our review of the former Minneapolis Technical College bookstore revenues found that cash control procedures were not followed. Cash was not deposited daily and daily cash reports were not reconciled with cash recorded in the accounting records on a timely basis. The college did not resolve potential cash shortages indicated on bookstore accounting reports. Also, the college's computer system, which recorded bookstore financial activity, crashed in April 1996.

The Minneapolis Community College (MCC) and the Minneapolis Technical College (MTC) bookstores combined operations in August 1996. Previously, each college operated a separate bookstore and recorded financial activity separately. The bookstores sold books, school supplies, clothing, and other items. Table 3-1 shows a summary of bookstore sales and expenditures for fiscal year 1996.

Table 3-1
Bookstore Revenues and Expenditures
Fiscal Year 1996

	MCC	MTC (1)
Revenues	$1,375,003	$538,999
Expenditures	$1,217,384	$447,636
Excess Revenues Over Expenditures (2)	$ 157,619	$ 91,363

Note: (1) Due to unrecorded transactions, we are not concluding on the reliability of financial information presented in this table.
(2) Expenditures do not match cost of goods sold against revenues. Also, some expenses were not charged to the bookstore, such as salaries for the technical college. Accordingly, net income for the bookstore could not be measured.

Source: MnSCU Accounting System General Ledger Trial Balance as of January 24, 1997.

We focused our review of bookstore revenues and expenditures on the current bookstore operations. We also gained an understanding of the accounting controls over the former community college and technical college bookstores. Our objectives for all bookstore operations were to answer the following questions:

- Did the bookstore procedures provide reasonable assurance that revenues were complete, adequately safeguarded, and accurately recorded in the accounting records?
- Did the bookstore procedures provide reasonable assurance that disbursements were appropriate, properly authorized, and accurately recorded in the accounting records?
- Did the bookstore procedures provide reasonable assurance that inventory was adequately safeguarded and accurately recorded in the accounting records?

To achieve these objectives, we interviewed bookstore staff to gain an understanding of the controls in place over the bookstore revenues and expenditures. We also performed analytical reviews and tested samples of transactions to determine if the college had adequate supporting documentation and had accurately recorded the transactions on the MnSCU accounting system. We also obtained sworn statements from the former technical college bookstore manager and the former vice president of finance relating to unreconciled cash differences at the technical college bookstore. The following sections separately discuss the current operations of the MCTC bookstore and the Minneapolis Technical College bookstore during fiscal year 1996.

MCTC Bookstore Operations

The MCTC consolidated bookstore adopted the operating procedures of the former Minneapolis Community College bookstore. MCTC accounts for bookstore sales through a point-of-sale computer program directly linked to each cash register. At the end of the day, the college's current cash reconciliation process includes counting cash, reconciling receipts to computer-generated sales reports, and preparing the deposit. The bookstore personnel secure receipts in a locked safe until the next day when a courier takes the deposit to the bank. The MCTC business office is responsible for posting the receipts to the MnSCU accounting system and reconciling deposits to the bank account. The college accounts for bookstore sales in an auxiliary enterprise fund.

The bookstore manager is responsible for determining the necessary inventory of books and supplies to meet the needs of faculty and students. The manager authorizes and forwards purchase requisitions to the MCTC purchasing department for processing. The bookstore staff conduct an annual physical inventory at the close of each fiscal year.

We also found that the MCTC bookstore and the community college bookstore designed internal controls to provide reasonable assurance that revenues were complete, adequately safeguarded, and accurately recorded in the accounting records. We found, however, that the bookstore's process of obtaining funds for book buy backs and change funds need improvement as further described in Finding 2.

We found that the MCTC and community college bookstores designed internal control procedures to provide reasonable assurance that expenditures were appropriate and properly authorized. We noted, however, that the college did not record bookstore disbursements in the accounting records promptly as reported in Chapter 2. The college adequately safeguarded and accurately recorded bookstore inventory in the accounting records.

2. PRIOR FINDING NOT RESOLVED: The business office did not control certain bookstore cash request transactions.

The business office did not verify that bookstore electronic cash request transactions processed by the bank were authorized. Occasionally, bookstore employees request cash directly from the bank by telephone to supplement the change fund or to provide cash for returns and book buy-backs. The cash is delivered to the school the following day by an armored car service. The bookstore maintains documentation for these cash request transactions, but there is no independent monitoring of the propriety of these cash transactions.

The bookstore maintains a $1,000 change fund. Bookstore employees make change by depositing cash from the $1,000 change fund to the bank and then electronically requesting an equal amount in other monetary denominations. The bookstore also increases the change fund at the start of each quarter to meet its peak sales period. After this peak period, the bookstore restores the change fund to $1,000 and deposits the excess cash back into the checking account. The business office did not monitor the activity of the change fund or ensure that the fund is restored timely.

Another example of uncontrolled cash transactions relates to the buy-back of books. The college contracts with a private book buying company to handle student book buy-backs. Prior to the buy-back date, the company sends a check to the bookstore. The bookstore deposits the check into its account. At the start of the buy-back period, the bookstore requests cash from the bank for the amount of the check. The business office did not confirm the propriety of these cash transactions with the bookstore.

The business office reconciles the bookstore checking account. However, the business office did not review these cash request transactions. The cash requests appear on the bank statement as debit memos. In performing the checking account reconciliation, the business office records these transactions from the bank statement and treats them as reconciling items. The business office did not obtain any support documentation for these transactions. There are no controls to ensure that cash requests are appropriate.

At the start of the quarter, there is usually a high volume of sales returns. In order to ensure sufficient cash is available to handle the volume of sales returns, the bookstore withholds cash from daily sales for several days up until the sales return period. The bookstore should deposit all cash daily and request funds as needed to provide for sales returns.

Recommendations

- *The business office should monitor all cash request transactions from the bookstore to ensure that the transactions are authorized.*
- *The bookstore should deposit all cash receipts on a daily basis.*

MTC Bookstore Operations

The MTC bookstore used a point-of-sale computer program to record sales transactions directly into the AS-400 computer system. At the end of the day, the bookstore produced a report from the AS-400 system which summarized the daily sales transactions as cash and checks, credit card charges, or financial aid credits. The bookstore manager was supposed to count the cash, checks, and credit card slips and post these amounts to a reconciliation sheet on a daily basis, along with the system information. However, the former manager admitted that these procedures were not always followed. The manager also told us that she did not reconcile any differences between the counted cash and the daily activity recorded from the AS-400 system.

In addition, the AS-400 system crashed during April 1996. The MTC bookstore did not have a backup system and, therefore, manually processed sales from April through June 1996. The college did not maintain detailed sales records during this time period, after which it consolidated with the community college bookstore. The college discontinued using the AS-400 system as of July 1996.

Our testing of MTC daily bookstore sales transactions indicated excessive cash shortages between sales recorded on the AS-400 computer system and the amount of cash actually collected and deposited into the bank for two out of five months of fiscal year 1996 activity we tested. In September 1995, sales transactions exceeded bank deposits by $1,684. In April 1996, the shortage was $2,592. We discussed the situation with current and former bookstore employees but were unable to determine the actual cause of the discrepancies.

We also found that the MTC bookstore did not make deposits of its September 1995 cash receipts until October 11, 1995. The bookstore manager took the uncounted receipts to the business office where they were placed in the safe, but did not make a bank deposit until several weeks later. We also observed that the college did not reconcile the bookstore bank account until several months later. Reconciliations are a key internal control to detect and prevent errors and irregularities.

Our review of the MTC bookstore operations for fiscal year 1996 indicated a weak system of internal controls. As a result, we were unable to provide assurances as to the reliability of financial operations.

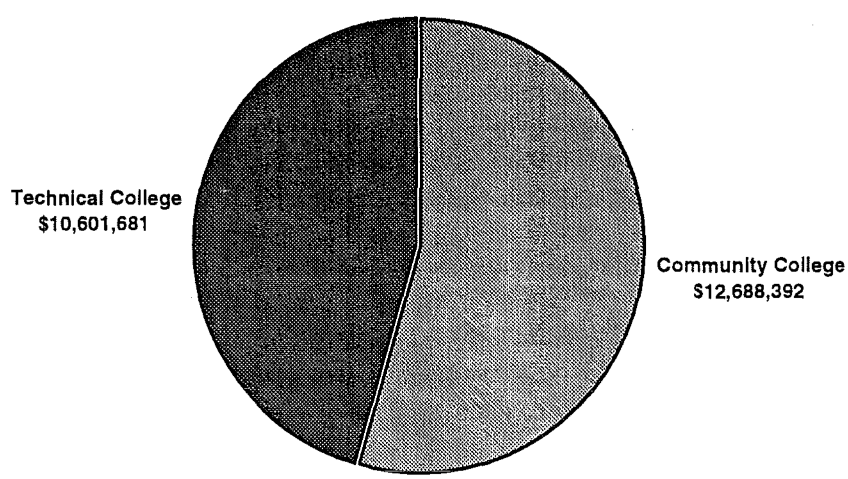
Chapter 4. Payroll

Chapter Conclusions

As of December 1996, we noted progress with the college's payroll and personnel processing. We continue to have significant concerns in these areas, however. The college needs to improve internal controls over payroll to provide reasonable assurance that payroll expenditures are properly authorized and accurately reported in the accounting records. The college had over $2.3 million of payroll expenditures not properly reported in the MnSCU accounting system. The college also had not resolved over $24,000 of outstanding salary advances. In addition, the college inappropriately overpaid $3,671 to three employees. Finally, we concluded that the college's biweekly time reporting process is not in compliance with certain state policies and was ineffective to manage payroll.

Payroll represents the largest expenditure for the combined college. The college had combined payroll expenditures of $23,290,072 for fiscal year 1996. Figure 4-1 shows the distribution of payroll expenditures between the community college and the technical college for fiscal year 1996.

Figure 4-1
Payroll Expenditures
Fiscal Year 1996



Source: Minnesota Accounting and Procurement System.

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We focused our review of payroll on specific objectives related to the following questions:

- Did the college design internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?

- Did the college's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To address these objectives, we obtained a general understanding of the internal control structure over the payroll and personnel process. We interviewed employees of the college and the MnSCU system office to obtain an understanding of the policies and procedures being applied and who was responsible for performing specific payroll duties. We gained an understanding of the personnel and payroll accounting systems used by the college. We also performed detailed tests of a sample of employee payroll transactions to support our conclusions. In addition, we analyzed overtime expenditures and severance payments of the college and performed other analytical procedures. We also followed up on the resolution of findings identified in prior audits.

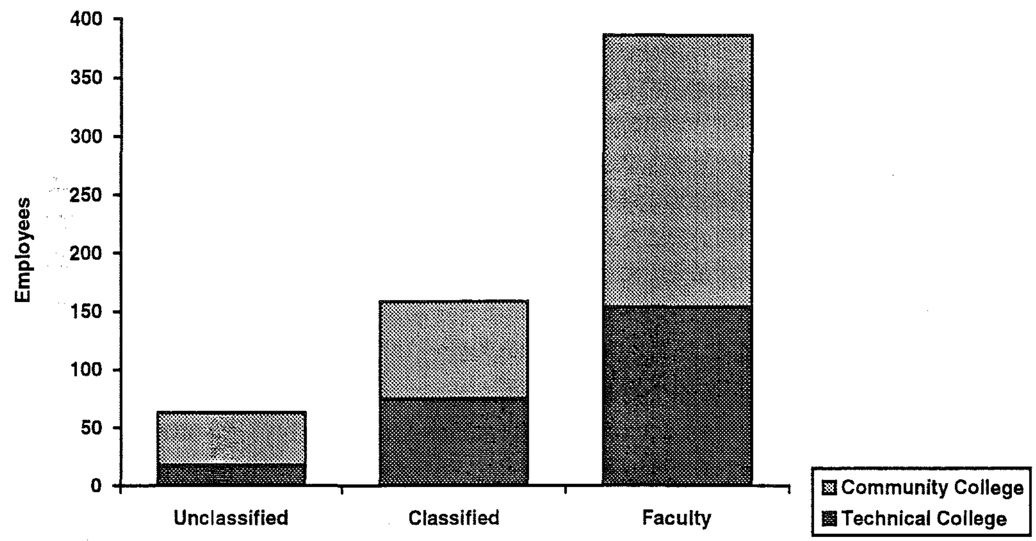
We concluded that the control structure for payroll and personnel at the college was, and continues to be, unstable due to mergers, consolidations, and reassignment of duties among staff. The payroll and personnel departments underwent many changes between July 1, 1995, and December 31, 1996. In July 1995, employees of the technical college became state employees, requiring that each employee be added to the state's Personnel/ Payroll System (PPS) and to MnSCU's State Colleges and Universities Personnel/Payroll System (SCUPPS). In February 1996, the technical college and the community college consolidated which led to the restructuring and combination of the payroll and personnel departments. In October 1996, the consolidated college discontinued using PPS and began using the state's new personnel/payroll system, State Employee Management System (SEMA4).

Throughout these transitions, the MnSCU system office performed many payroll and personnel functions for the college. Many of the duties performed by the MnSCU system office have been or will be delegated to the college in the future. For example, the MnSCU systems office had entered payroll transactions throughout our audit scope for both the community college and technical college, but MCTC has recently assumed this responsibility. As a result, the college had to revise its control procedures. Another significant control function being performed by the system office, the reconciliation of payroll transactions between SCUPPS and the state's payroll/personnel systems, will also be assumed by the college.

In addition to the continuously changing environment, the personnel and payroll departments faced many challenges associated with the consolidated college. The payroll and personnel departments still needed to identify staff as being either technical college employees or community college employees because of the different bargaining agreements representing community college faculty and the technical college faculty. As such, data entry screens and reports still identified staff as either a technical college or community college employee. In addition, the MnSCU system office processed most personnel transactions for community college employees, while the college was responsible for processing personnel transactions for technical college employees.

Figure 4-2 identifies the number of community and technical college employees by classification as of spring quarter 1996.

Figure 4-2
Classification of Employees
Spring Quarter 1996



Source: Minneapolis Community and Technical College records.

We determined that the payroll and personnel controls that the college had in place as of December 1996 were improved in relation to those controls in place at the beginning of our audit period. We found that the college prepared and retained better support for payroll and personnel adjustments. In addition, the college had implemented some recommendations that were noted in our audit of the transition of technical colleges to state government. (See our audit report *Minnesota State Colleges and Universities System - Transition of Technical Colleges into State Government*, released, August 30, 1996.) For example, the college had properly separated duties between payroll and personnel staff. However, the college still had not resolved other issues that were noted in prior audit reports, as discussed below. In addition, we noted other weaknesses that existed and errors that were not detected.

3. PRIOR FINDING NOT RESOLVED: The college had not accurately posted payroll expenditures to the MnSCU accounting system.

The college had over $1.8 million of fiscal year 1996 payroll expenditures for both the community college and technical college that it had not posted to the MnSCU accounting system. In addition, over $500,000 of fiscal year 1997 payroll transactions have not been posted correctly. We reported our concerns with payroll expenditures not being recorded in MnSCU accounting in our transition audit of the technical colleges. The college has not taken appropriate steps to resolve the identified problems which results in incomplete information on the MnSCU accounting system.

In fiscal year 1996, the $1.8 million of payroll expenditures not recorded in MnSCU accounting occurred because a process had not been initiated to record payroll expenditures on the MnSCU accounting system. The majority of errors for fiscal year 1997 appear to be related to inconsistent data in either MnSCU's SCUPPS system or in the state's personnel management system. The college's personnel department needs to resolve these errors. Until the college corrects the posting errors, MnSCU accounting records for MCTC will continue to be materially misstated due to the significant level of payroll expenditures in error.

Recommendation

- *The college needs to timely resolve employee payroll expenses that are not accurately recorded in the MnSCU accounting system.*

4. The college incorrectly paid a total of $3,671 to three employees.

The college mistakenly paid a severance payment twice to an employee for accumulated and unused vacation leave and incorrectly processed payroll transactions for two other employees. The Department of Finance, Central Payroll Division, and the MnSCU system office both processed a vacation liquidation transaction on the same day for the college. The employee was paid twice for 201.5 hours of accumulated and unused vacation hours which amounted to $2,883 in wages and $221 in FICA benefits.

The college also incorrectly processed payroll transactions for two employees that resulted in overpayments totaling $567. The college paid an employee for 72 hours of regular pay, and at a later date, paid him for 40 hours of holiday pay for the same payperiod. The college could not provide support to justify the 40 hours of holiday pay. We concluded that the payment was inappropriate. In addition, during the same payperiod, the same employee was paid twice for 72 hours of shift differential pay. In total, the college overpaid this employee $392 in wages and $30 in FICA.

The college inappropriately granted a salary increase to another employee. The college paid the employee at the incorrect rate for seven payperiods. The increase was eventually detected and rescinded. The college did not collect the overpayment of $145 including salary and fringe benefits.

Recommendation

- *The college should pursue collection of the $3,671 in payroll overpayments from the employees in question.*

5. PRIOR FINDING NOT RESOLVED: The college had not timely resolved $24,993 in outstanding salary advances owed to the college.

As of February 1997, the college had $24,993 in salary advances outstanding from its imprest cash fund, some of which dated back to July 1995. Our audit report on the transition of the technical colleges identified that the technical college had outstanding salary advances of $11,541 as of May 1996. The college provided salary advances from its imprest cash account to employees that had not received scheduled paychecks. The employees signed an agreement to repay the imprest cash account when they received their payroll warrant. The college has made various requests of these employees to repay the amounts due. However, the employees have yet to make repayment. Some individuals are no longer employed by the college. Department of Finance's Operating Policy and Procedures mandate a timely settlement of employee salary advances. The college should consider various collection options including revenue recapture, salary offset, or using a collection agency to recover the funds.

Recommendation

- *The college should actively pursue the collection of the $24,993 in outstanding payroll advances.*

6. The college's time reporting procedures were not in compliance with state policy and were ineffective for managing payroll.

The college needs to improve certain aspects of its biweekly time reporting by employees to comply with state policy, and to provide better controls and a more effective process. We identified five areas related to time reporting that we believe need improvement. In particular, we found weaknesses in the reporting process of employees working at the technical college.

First, employees of the technical college did not complete preapproved requests for overtime or personal leave. We identified this as a weakness during our technical college transition audit in May 1996 and it has yet to be resolved. We noted that the college's maintenance department had over $83,000 of overtime in fiscal year 1996, which accounted for 75 percent of all overtime at the college. To assure that all overtime work is properly authorized and reported, the Department of Finance issued Operating Policy and Procedure 07:04:22, requiring that no state employee be compensated for overtime hours worked unless it has been approved in advance by the appointing authority. The policy states that the supervisor should request the advance approval from the appointing authority, and, once approved, the supervisor may approve individual requests for overtime. Also, the Department of Finance Operating Policy and Procedure 07:04:23 states that each state employee must initiate a written request for personal leave, and, whenever possible, the request should be made in advance. This policy provides assurance that all leave is properly authorized and reported. It also provides an additional management tool to monitor employee leave usage.

Second, we found that a variety of timesheets are being used at the college. Technical college employees submit different timesheets than the community college employees. Unclassified excluded administrators, classified staff, and hourly faculty each report time differently, while contract faculty do not complete timesheets. This inconsistency results in inefficiencies in payroll processing. In addition, the timesheets do not provide sufficient information, such as positions worked or assignments that are charged to multiple cost centers. The college also had many employees that worked as hourly faculty in addition to their regular assignments. These hourly appointments require more detailed payroll information to identify position, dates, and hours worked. We identified one employee that reported hourly work on the same days that the employee had normally scheduled teaching assignments. Without adequate support for the hourly appointments, it is difficult to determine if the employee had reported time worked for the same time period. In addition, we noted another employee that regularly submitted up to five timesheets each pay period, depending on the jobs performed. This type of time reporting is difficult to control and is inefficient for both the employee and the payroll department.

Third, college staff informed us that one faculty member received paychecks for services that the employee did not perform. The faculty member, originally scheduled to teach fall, winter, and spring quarters, decided not to return after fall quarter. The overpayment occurred because the college did not appropriately update the contract dates in the SCUPPS system prior to the beginning of the winter quarter. The payroll system automatically processes payments based upon contract dates input into the MnSCU SCUPPS system. The college eventually detected and corrected the error.

Fourth, we found that college employees did not submit timesheets timely. Most employees submitted timesheets too early, while others were too late. We observed that some hourly faculty would not submit timesheets for time worked until after the end of the payperiod. This places additional administrative and processing demands on the payroll department to verify that the employee was not previously paid in other payperiods. We also observed that employees and supervisors certified anticipated hours, rather than actual hours. Many employee's submit timesheets on the Thursday or Friday preceding the end of a payperiod which would be the following Tuesday. The college had instructed its supervisors to notify the payroll department if employee's hours change. However this is inefficient and increases the risk of inaccurate payroll being processed. In February 1997, the college began inputting its own payroll, which should eliminate the need to submit timesheets so far in advance.

Finally, we observed that the college processed many timesheets without the approval of supervisors. The college obtained the approvals after the fact. However, processing payroll that is not properly authorized is a violation of state policy and potentially could result in inaccurate payroll transactions.

Recommendations

- *The college should require that overtime and personal leave be preapproved and authorized.*

- *The college should develop a uniform time reporting system that identifies the employee, all duties or positions performed, hours worked, and applicable cost centers to be charged.*

- *The college should establish controls to ensure that faculty are only paid for work completed.*

- *The college should require timely submission of properly approved timesheets.*

Chapter 5. Purchasing and Administrative Expenditures

Chapter Conclusions

Minneapolis Community and Technical College designed internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately recorded in the accounting records. The college complied with MnSCU's purchasing policies.

The purchasing department processes all orders for supplies, materials, equipment, and services for the college. The purchasing department requires an approved purchase requisition form to order supplies and equipment. The purchasing department is responsible for verifying that sufficient funds are available in the appropriate cost center. If funds are available, a vendor is selected according to MnSCU guidelines and a purchase order is completed. The purchasing department matches invoices and receiving reports to the purchase order and processes the payments.

Minneapolis Community and Technical College operated a combined purchasing function in June 1996. Prior to that time, the community college and technical college each had separate purchasing units. The community college handled all of its purchases and sent invoices to the MnSCU central office for payment processing. The technical college handled purchasing and its own payments. Table 5-1 provides a summary of fiscal year 1996 non-payroll administrative expenditures.

Table 5-1
Non-Payroll Expenditures (1)
Fiscal Year 1996

Description	MCC	MTC
Operating Expenses	$ 2,357,429	$ 2,189,227
Supplies	350,051	646,526
Equipment	173,771	346,090
Total	$2,881,251	$3,181,843

Note (1): This schedule excludes bookstore activity as recorded on MnSCU Trial Balance dated January 24, 1997.
Source: Auditor prepared from the MnSCU Accounting System.

Our primary objectives for purchasing and administrative expenditures were to answer the following questions:

- Did the college design internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately reported in the accounting records?

- Did the college's purchasing and expenditure process comply with applicable legal requirements?

To answer these questions, we made inquiries of college staff to gain an understanding of the current purchasing and disbursement process. We performed analytical reviews and tested a sample of purchasing transactions. As part of our audit, we also gained an understanding of the control procedures over the prior MCC and MTC purchasing departments. We also conducted audit tests on fiscal year 1996 transactions from each of the colleges. We relied on our audit work conducted as part of the transition audit for our understanding of the internal controls over equipment and fixed assets.

We concluded that MCTC designed internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately recorded in the accounting records. The college complied with MnSCU's purchasing policies.

Chapter 6. Tuition and Fees

Chapter Conclusions

Minneapolis Community and Technical College needs to improve controls to provide reasonable assurance that the college collects the appropriate amount of tuition and fee revenue and accurately records the activity in the accounting system.

At the beginning of fiscal year 1997, Minneapolis Community and Technical College began operating a single registration and billing system. The college replaced the Computer Management and Development Services (CMDS) registration system formerly used by the technical college. At that time, the college began processing all registrations on the Collegiate Information System (CIS), the accounting system used by the community college for registration, billing, and collection of tuition and fees prior to the consolidation.

In fiscal year 1996, each college separately collected, deposited, and recorded tuition revenue. The community college collected tuition at a resident rate of $42.25 per credit hour plus fees. The non-resident rate was $84.50 plus fees. The technical college charged $40.00 per credit. Table 6-1 summarizes the college's total tuition revenue for fiscal year 1996.

For fiscal year 1997, Minneapolis Community and Technical College increased the resident tuition rate to S43.85 with an additional $2.10 and $2.17 per credit for fees for technical and community college courses respectively. The non-resident tuition rate for fiscal year 1997 is $85.45 plus fees.

Table 6-1
Tuition and Fees
Fiscal Year 1996

Description	MCC	MTC
FY96 Revenues:		
Tuition (Net of Refunds)	$5,445,675	$3,241,146
Fees	710,846	329,883
Continuing Education	127,252	0
Customized Training	0	63,249
Total Revenues	$6,283,773	$3,634,278

Source: Auditor prepared from MnSCU Accounting System, CIS Registration System, and MCTC documentation.

The primary objectives of our audit of tuition and fees were to answer the following questions:

- Did Minneapolis Community and Technical College design internal controls to provide reasonable assurance that tuition and fee revenue was collected in the approved amount and accurately recorded in the accounting system?

- Did Minneapolis Community and Technical College deposit the tuition revenue with the State Treasury timely?

To meet these objectives, we met with college staff and reviewed controls over tuition billing, collecting and depositing processes. We also relied on our prior audit of the technical college registration and tuition collection process (see *Minnesota State Colleges and Universities System - Transition of Technical Colleges into State Government* audit report). We reconciled the tuition revenue recorded on the MnSCU accounting system to the credits earned on the student information system. We also reviewed the tuition collected by the customized training department and the continuing education department.

We noted weaknesses in the controls over the collecting and reconciling of tuition revenue as discussed in the following findings.

7. PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College did not adequately control the tuition process.

Employees of the business office have the opportunity to perform incompatible revenue functions because cashiers are also able to unilaterally perform administrative adjustments on the accounting system. The college uses administrative adjustments to make changes to recorded transactions. For example, an error in entering tuition into the registration system requires an administrative adjustment which is similar to a void on a cash register. A cashier could use an adjustment to alter a transaction inappropriately. College staff told us that although cashiers have the ability to perform administrative adjustments, that in practice, only one staff person enters the adjustments on the accounting system. Staff also indicated that the business manager reviews weekly reports detailing administrative adjustments. However, this review was not documented in the college files we reviewed.

We also noted that the college did not perform key reconciliation procedures to verify the propriety of tuition collections. The college did not reconcile the tuition revenue recorded in the MnSCU accounting system with the credits earned on the registration system. Such a reconciliation would provide the college with the assurance that it collected the proper amount of tuition, at appropriate tuition rates, in relation to total billable credits. The reconciliation should consider factors such as credit waivers, non-resident credits, reciprocity credits, and tuition refunds. The college should perform this reconciliation on a regular basis as a useful budgetary and management control. In addition, as we reported in Chapter 2, the college also had not reconciled the All College bank account to supporting accounting records since August 1996.

Recommendations

- *The college should document that the business manager and approves administrative adjustment transactions.*

- *The college should perform a reconciliation between tuition revenue recorded on MnSCU accounting and credits earned per the student registration system to provide reasonable assurance of proper billing, collecting, and recording of tuition revenue.*

8. PRIOR FINDING NOT RESOLVED: MCTC did not adequately control continuing education tuition receipts.

The continuing education office continued to receive registration payments rather than having the fees go directly to the business office. The business office deposited the receipts, but did not reconcile the amount to registration information. The continuing education office entered the registrants on a roster and lists the receipts when received. However, the business office did not compare the amount received to the participant list. The lack of an independent reconciliation increases the chance of errors and irregularities occurring and going undetected.

Recommendations

- *The college should require that all tuition and fee payments be sent directly to the business office.*

- *The business office should reconcile receipts received from the continuing education office to the course roster or list of attendees.*

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Chapter 7. Other Revenue

Chapter Conclusions

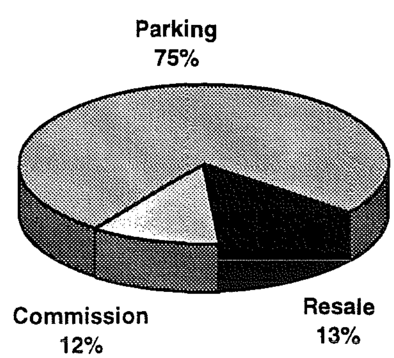
Minneapolis Community and Technical College did not have an adequate system of control to provide reasonable assurance that the college collected, safeguarded, and recorded the appropriate amount of parking, commission, and resale revenue in the MnSCU accounting system.

The college designed controls over the administration of a federal grant for the air traffic control program to provide assurance that transactions are authorized, accurately recorded in the MnSCU accounting system, and in compliance with grant requirements.

Minneapolis Community and Technical College generated approximately $550,000 in fiscal year 1996 from parking, commissions for food service and vending machines, and resale activities such as the culinary arts and barber programs. The business office deposits the revenue from these activities into the bank and records transactions in the MnSCU accounting system. The college also administers various federal and state grants. We reviewed the activity of one federal grant for the air traffic control program which is discussed later in this chapter.

We focused our attention on parking, commissions, and resale revenues that are collected outside of the business office. Figure 7-1 shows the percentage of income associated with these revenue sources for fiscal year 1996.

Figure 7-1
Revenue from Parking, Commissions, and Resale
Fiscal Year 1996



Source: MnSCU Accounting Systems.

Minneapolis Community and Technical College

The primary objectives of our audit of the parking, commission, and resale revenue were to answer the following questions:

- Did the college design internal controls to provide reasonable assurance that parking, commission, and resale revenue were safeguarded and accurately recorded in the MnSCU accounting system?

To meet these objectives, we interviewed college employees, and reviewed the controls over collecting and depositing parking, commissions and resale revenues. We also reviewed the reasonableness of the revenue recorded on the MnSCU accounting system for fiscal year 1996. We found a lack of control over the collection of revenue related to parking, commissions, and resale programs. We provide background information and findings for each of these areas in the following sections.

Parking

The college owns and operates its own parking ramp for the benefit of the students and staff. Patrons gain entry to the ramp by paying a $2 parking charge or by using a prepaid automated parking card. The parking ramp supervisor programs the magnetic cards and forwards them to the bookstore for sale. Students and staff may purchase parking cards from the bookstore in various denominations ranging from $16 for 12 entrances to $80 for unlimited entrances per quarter. An armored car company empties the parking ramp cash machines on a daily basis and deposits the receipts on behalf of the college at the bank. For fiscal year 1996, the college recorded $415,827 in parking revenue on the MnSCU accounting system.

9. Minneapolis Community and Technical College did not adequately control parking revenue.

The college did not reconcile the total parking receipts collected and deposited to the perpetual records maintained by the cash machines located at the entrance to the parking ramp. In addition, the college did not reconcile deposits for collections from the sale of parking cards.

The cash machine generates an accounting record of all units received. The security company empties the machines daily and takes funds directly to the bank for deposit on behalf of the college. The parking ramp attendant generates an accounting statement of daily activity from the cash machine at the time the machines are emptied. The college should compare the amount of deposit with this statement to ensure that all parking funds have been deposited.

The parking attendant manually records the serial numbers of activated parking cards in the various denominations prior to forwarding them to the bookstore for sale. The bookstore completes a cash report summarizing daily activity. The sale of parking cards at the bookstore should be reconciled to the activated card list prepared by the parking ramp attendant. This reconciliation would ensure that an expected amount of revenue from the sale of cards is received and properly recorded. The reconciliation also provides control over the issuance of parking cards.

Reconciliations provide the college with assurance that the amounts collected and deposited are complete. Without a reconciliation, the college is subject to the risk of errors or irregularities not being discovered in a timely manner.

Recommendations

- *The college should conduct periodic reconciliations of the parking revenue deposited to the accounting statements generated from the cash machines to ensure that all revenue is deposited.*

- *The college should reconcile the log of parking cards activated and sold to the amount of revenue collected and deposited.*

Commissions

The college received $63,441 in commission revenue from various food service and vending operations during fiscal year 1996. The food service contract with the Minnesota Viking Food Service has been in effect since August 1995 and generated the majority of the commission revenue. The initial food service commission rate was 10.2 percent of sales, but the college amended the contract to a graduated scale with a base rate of 5.5 percent of sales. The college received other food service commissions from the Minnesota Department of Economic Security. The Department of Economic Security operated the food service for the community college before the two colleges merged and currently runs the vending activity for the college together with Midwest Vending. The college also received commissions from telephone companies for telephone booth usage at the college.

10. Minneapolis Community and Technical College did not have procedures for determining the reasonableness of commission revenue.

The college earns commission revenue from a variety of sources including food service, vending machines, and telephones. The college contracts with vendors for each of these services. The contracts specify the percentage of net monthly sales the college is entitled to receive as commission. The vendors determine monthly sales and submit commission checks to the purchasing manager. For added control, the checks should be submitted directly to the business office.

The college did not compare the amount of commission received with the percentage specified in the contracts. Therefore, the college did not know if the vendor had calculated the correct amount of commission revenue. Furthermore, the college had not developed a basis for assessing the reasonableness of the sales reported by the vendors. Without a basis for estimating monthly sales, the college cannot reasonably anticipate commission revenue.

Recommendations

- *The college should compare commission revenue with the contracted percentages and review the reasonableness of sales reported by the vendors.*
- *The college should require that commission checks be forwarded directly to the business office.*

Resale Activities

Some teaching departments at the college, such as culinary arts, barbering and automotive, engage in activities that generate revenue. The instructors collect the revenue at the department level and forward it once or twice a week to the business office for depositing and recording into the MnSCU accounting system. For fiscal year 1996, the college recorded $71,816 related to resale activities.

11. Minneapolis Community and Technical College did not adequately control the cash collections from resale activities.

The college did not have standard revenue collection and depositing procedures for the departments engaged in resale activities. Each department has its own method of collecting, accounting for, and forwarding receipts to the business office for deposit. For example, the automotive department forwards its receipts to the purchasing manager while barbering and culinary arts, among other departments, submit their receipts directly to the business office. We noted that many of the departments did not use cash registers or accounting ledgers to record sales. The departments did not adequately safeguard cash receipts and did not always make daily deposits.

Under current practices, the college cannot determine the accuracy of sales by these departments or determine whether the total receipts were forwarded and deposited by the business office.

Recommendation

- *The business office should work with the departments that collect revenue from resale activities in order to establish the internal controls necessary to ensure that assets are safeguarded and revenues are properly recorded in the accounting records.*

Air Traffic Control Federal Grant (CFDA #20.100)

One of the federal grants administered by the college is for the operation of an air traffic control training center. The Mid-America Aviation Resource Consortium (MARS) and the Federal Aviation Administration (FAA) developed this unique program designed to train students for potential employment as air traffic control specialists. The college's air traffic control program employs six administrators and seven full-time instructors. During fiscal year 1996, the Air Traffic Control program had one six-month training course ending on September 15, 1996. The current grant provides for two six-month training courses.

The FAA allocates funds for this program to the Minnesota Department of Transportation (MnDOT). The grant's fiscal structure changed from an entitlement basis in fiscal year 1996 to a reimbursement program in fiscal year 1997. The amount of the federal grant increased from $544,000 for fiscal year 1996 to $1,700,000 for fiscal year 1997. The college attributed the increase to the addition of the second training program. The college's business office also assumed the budgetary control function of the grant for fiscal year 1997.

We reviewed the Air Traffic Control program's fiscal year 1996 expenditures to determine if the college designed controls to provide reasonable assurance that transactions were authorized, accurately recorded in the accounting system, and in compliance with the grant agreement. We found that the program expenditures were reasonable and consistent with the program requirements and goals.

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Chapter 8. Federal Financial Aid

Chapter Conclusions

We audited Minneapolis Community and Technical College controls over the packaging, awarding, and disbursing of federal student financial aid as of December 1996. We also reviewed the federal cash management and reporting process for the federal financial aid programs. The college designed internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with general and specific program requirements. We found minor issues, however, relating to the Perkins Loan account, including excessive cash balances.

Minneapolis Community and Technical College participates in the following federal student financial aid programs administered by the U.S. Department of Education:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)

Over 75 percent of the students at the college receive financial aid. We reviewed the Federal Pell Grant and Federal Family Education Loan Programs which are considered major federal programs for audit purposes.

The Federal Pell Grant is generally considered the first source of assistance to students. Since Pell Grant payments are not limited to the available funds at the colleges, all eligible students receive aid payments. The maximum Pell Grant was $2,470 for a student in the 1996-97 award year.

Under the Federal Family Education Loan Program, private lenders provide the loan principal, and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

Minneapolis Community and Technical College no longer participates in the Federal Perkins Loan program. The MnSCU system office continues to collect outstanding Perkins Loan receivables and forwards them to the college. However, the college does not award new Perkins Loans.

Minneapolis Community and Technical College

Following the consolidation of Minneapolis Community College and Minneapolis Technical College, the combined financial aid office adopted one common financial aid computer system. Starting in May 1996, the college began using the SAFE financial aid computer system. This system was previously used by the community college. The technical college had used the Computer Management and Development Services (CMDS) package on its AS-400 system for financial aid.

The primary objectives of our audit were to answer the following questions related to financial aid programs as of December 1996:

- Did the college design internal controls to provide reasonable assurance that financial aid disbursements were properly authorized for eligible students and accurately reported in the accounting records?

- Did the college comply with applicable legal requirements over the management of federal cash and timely and accurate reporting of financial aid activity?

To address these questions, we evaluated and tested controls over compliance for determining student eligibility, awarding, packaging, and disbursing federal financial aid. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

We found the college had designed internal controls to provide reasonable assurance that fiscal year 1997 financial aid transactions were authorized and properly recorded. In addition, the college complied with federal student financial aid general requirements over cash management and federal reporting. However, we noted the following weaknesses over federal cash management and reporting.

12. The college continued to carry $17,889 in outstanding checks in its federal financial aid account.

The college had $17,889 of outstanding checks in its federal financial aid account. Many of the checks are more than two years old. These checks are reconciling items every month on the bank reconciliation. The college should write-off the old checks to clean up the reconciliation process and to provide a more accurate account of the balance in the federal financial aid account.

Recommendation

- *The college should write-off the uncashed outstanding checks and determine whether the students or the U.S. Department of Education have a claim to the funds.*

13. PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College did not properly manage the Perkins Loan receivable balance.

The college maintained excessive cash balances in its Federal Perkins loan account even though the college has discontinued awarding any new Perkins loans to students. The system office collects the loan repayments from students. The system office then forwards the collections to the respective college where the student received the loan. Since MCTC is not issuing any new Perkins loans, the majority of the repayments represent excess cash and should be forwarded to the U.S. Department of Education (a portion of the repayments originated from the college's contribution to fund the Perkins loan program). The balance in the college's Perkins loan savings account, as reported on the 1996 FISAP, was $28,689. The college returned $20,630 to the federal government in August 1996 for fiscal years 1994 and 1995.

In addition, the college did not reconcile its Perkins loan receivable balance to MnSCU's centralized Loan Management System. According to the college's fiscal year 1996 Fiscal Operations and Application Report (FISAP), the loan receivable balance for Perkins loans was $47,754. Loans receivable reported by the Loan Management System were $36,954. The college had not reconciled the $10,800 difference. FISAP procedures require the college to balance total loans issued, total repayments, and total outstanding principal. The unreconciled difference represents inaccurate reporting or recording of financial aid activity in this program.

Recommendation

- *The college should determine the remaining balance in the Perkins loan account and promptly return those funds, as well as any additional loan collections, to the U.S. Department of Education.*

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Chapter 9. Minneapolis Community and Technical College Foundation

Chapter Conclusions

The college had an appropriate relationship with the Minneapolis Community and Technical College Foundation. The college had a current contract with its foundation that outlines the benefits and financial support to be provided to the college and its students. The foundation was also in compliance with state registration requirements for charitable organizations.

The Minneapolis Community and Technical College Foundation is a private, non-profit organization created to support the programs and students at the college. The foundation has its own board of directors, articles of incorporation, and by-laws. The foundation maintains its own financial records and accounts. State law requires the foundation, as a charitable organization, to have an independent audit of its financial statements. The foundation's last financial audit was for the fiscal year ended June 30, 1996.

We reviewed the foundation's relationship with the college and gained an understanding of what changes have been made since our last audit report. We wanted to ensure that the foundation operates as an independent entity, apart from the college.

We found that the college had improved its relationship with the foundation. All foundation employees are independent of the college. The college executed a contract with the foundation on November 13, 1996, outlining expectations and responsibilities of each organization. We also found that as of October 18, 1995, the foundation was in compliance with state registration requirements for charitable organizations. Our work was limited to a review of the college's relationship with the foundation and, accordingly, we did not perform an audit of the Minneapolis Community and Technical College Foundation.

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MINNEAPOLIS
COMMUNITY & TECHNICAL
COLLEGE

April 23, 1997

James R. Nobles
Legislative Auditor
100 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Minneapolis Community and Technical College for the period from July 1, 1995, through December 31, 1996. The MCTC administration requested that the college be audited early in its existence as a consolidated college to verify that we are developing appropriate financial management practices and to assist us in determining where we might strengthen our procedures. This audit has been valuable in that regard. We also want to acknowledge the professional and courteous manner in which your staff completed their work.

We are pleased to note that the deficit budget situation reported in the previous Minneapolis Community College audit for FY95 has been resolved, and the college ended FY96 with a significant positive fund balance.

It is essential to understand that the period covered by the current audit was one of extreme change and dislocation for the college. For over half the audited timeframe, two separate institutions were operating, Minneapolis Community College and Minneapolis Technical College. The transfer of the technical college to state control, the transfer of both institutions to the new Minnesota State Colleges and Universities governance structure and the development of new board policies, the consolidation of the two colleges into MCTC and the considerable reorganization which consolidation required, the implementation of new state and MnSCU computer systems for accounting and personnel/payroll functions with minimal preparation and training, and a significant number of staffing changes all added to the financial management challenges at the time. Minimal resources were provided to assist with these significant transitions.

We are pleased to note that major progress has been made in establishing sound fiscal management systems at MCTC over the past year. Listed below are our responses and plans to each finding in the report.

1501 HENNEPIN AVE MINNEAPOLIS, MN 55403 612-370-9400 1-800-247-0911(MN) FAX 612-370-9428

1. **Minneapolis Community and Technical College needs to improve its overall financial management.**

   Since the period covered by the audit, MCTC staff have completed several critical fiscal management tasks and made various structural changes in accounting processes. These include:
   - determining the FY96 carryforward balance for the former technical college.
   - reducing the number of bank accounts from 8 to 3, making the reconciliation process more efficient.
   - replacing manual accounting procedures with electronic procedures linked to the MnSCU accounting system, e.g., the checkwriting system, thereby increasing the efficiency and reliability of bank statement reconciliation.
   - reorganization of staff and assignments with clear delineation of responsibility for posting of for posting of financial transactions and reconciliation procedures in a timely manner.
   - developing procedures for improved controls and management of cash and records.
   - reviewing procedures for approving access to records to insure that it is granted only to those individuals requiring access to complete their job responsibilities.
   - The Business Office is in the process of determining and documenting the disposition of undeposited checks totaling $8,400.

2. **PRIOR FINDING NOT RESOLVED: The business office did not control certain bookstore cash request transactions.**

   - Procedures have been developed for the business office to monitor all cash requests transactions from the bookstore to ensure that all transactions are properly authorized. Similarly a procedure has been developed for the daily deposit and reconciliation of cashier records with receipts. Bookstore management has been instructed as to the critical nature of this activity, and staff are being reorganized to make this a priority function.

3. **PRIOR FINDING NOT RESOLVED: The college had not accurately posted payroll expenditures to the MnSCU accounting system.**

   - A procedure will be established in which bi-weekly reports of payroll posting errors will be reviewed by senior management to ensure that expenditures are accurately posted on the MnSCU accounting system. FY96 posting errors have been reduced considerably and efforts are in progress to complete the corrections.

4. **The college incorrectly paid a total of $2,671 to three employees.**

   - MCTC is pursuing the collection of payroll overpayments.

5. **PRIOR FINDING NOT RESOLVED: The college had not timely resolved $24,993 in outstanding salary advances owed to the college.**

   - MCTC is electronically deducting amounts from all current employees. For the 3 individuals no longer employed by MCTC, revenue recapture and other methods will be used to retrieve the funds.

6. **The college's time reporting procedures were not in compliance with state policy and were ineffective for managing payroll.**

- College policy requiring that overtime and personal leave be approved and authorized is being distributed to all personnel. Training efforts are underway to emphasize the importance of adherence to this policy.
- As a result of consolidation, several versions of timesheets and leave approval forms are still in use. New uniform forms and procedures are being developed.
- The college will work with MnSCU and other campuses to determine appropriate methods to ensure that faculty are only paid for work completed.
- The due date for timesheets has been moved from Thursday noon to Friday afternoon to reduce the period when changes might occur but to still provide the staff with sufficient time to complete payroll transactions. Additional training is also being developed and scheduled to instruct supervisors in proper time reporting management.

7. **PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College did not adequately control the tuition process.**

- The business officer has an established procedure in place for reviewing, approving, and documenting administrative adjustment transactions.
- The receivable accounting system has been adjusted to allow tuition revenues to be monitored on a quarterly basis. MCTC will complete quarterly comparisons of enrollment and revenues. Because of the many transactions that can affect tuition revenues (e.g., adding and dropping classes, refunds, waivers, and reciprocity) this reconciliation cannot be totally accurate but can provide a useful informal check on the receivable process.

8. **PRIOR FINDING NOT RESOLVED: MCTC did not adequately control continuing education tuition receipts.**

- MCTC will explore effective methods by which tuition and fee revenues can be sent directly to the business office without impeding customer service. The business office will also reconcile receipts from the continuing education office with course rosters or lists of attendees.

9. **Minneapolis Community and Technical College did not adequately control parking revenue.**

- MCTC will conduct periodic reconciliations of parking ramp revenues deposited to the accounting statements generated from the cash machines to ensure that all revenue is being deposited.
- MCTC will also reconcile the log of parking cards activated and sold to the amount of revenue collected and deposited.

10. Minneapolis Community and Technical College did not have procedures for determining the reasonableness of commission revenue.

- MCTC will explore methods for effectively monitoring the reasonableness of sales reported sales reported by contract vendors for food service, child care and vending services and implement any feasible approaches.
- Contract vendors are being notified to forward commission checks directly to the business office.

11. Minneapolis Community and Technical College did not adequately control the cash collections from resale activities.

- MCTC staff have been and will continue working with programs that collect resale revenue in order to establish improved internal controls.

12. The college continued to carry $17,889 in outstanding checks in its federal financial aid account.

- MCTC will write-off outstanding uncashed financial aid checks and determine, in cooperation with MnSCU, whether the funds should be returned to the students or the U.S. Department of Education.

13. PRIOR FINDING NOT RESOLVED: Minneapolis Community and Technical College did not properly manage the Perkins Loan receivable balance.

- MCTC, as noted, has already returned $20,630 of Perkins loan funds to the federal government. The college will determine the remaining balance due and return it also. MCTC will also make a determination as to the correct receivable balance for Perkins loans and make the proper adjustments with the U.S. Department of Education.

Sincerely,

Phillip L. Davis
Interim President