

Alexandria Technical College

Financial Audit

For the Period July 1, 1995, through December 31, 1996

July 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-38



STATE OF MINNESOTA
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Mr. Larry Shellito, President
Alexandria Technical College

We have audited Alexandria 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 fee revenue, payroll expenditures, equipment and supply purchases, student activities, enterprise funds, and the college's relationship with its foundation. 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 areas 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 management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Alexandria Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of Alexandria Technical College is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

We have prepared this report for the information of the Legislative Audit Commission and the management of Alexandria Technical College. We do not intend this restriction to limit the distribution of this report, which we released as a public document on July 18, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 18, 1997

Report Signed On: July 11, 1997

SUMMARY

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Alexandria Technical College

Financial Audit

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No. 97-38

Background Information

Alexandria Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995. MnSCU merged 8 state colleges, 21 community colleges, and 34 technical colleges, including Alexandria Technical College, into one common system. Prior to the MnSCU merger, Alexandria Technical College operated as part of Independent School District No. 206. The mission of Alexandria Technical College is "to provide the highest quality polytechnic education through the use of modern and adequate facilities, a highly qualified staff, and up-to-date equipment." Mr. Larry Shellito is the president of the college.

Our audit scope included a review of general financial management controls, tuition and fees, payroll, supplies and equipment, student organizations, enterprise activities, and the college's relationship with its foundation. We also audited the administration of the federal student financial aid program for fiscal year 1997.

Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that its major financial activities were accurately reported in the accounting records and complied with applicable legal provisions and management's authorizations. These major financial activities include tuition, payroll, purchasing, and student financial aid. However, the college did not perform various reconciliations that are critical to the integrity of the accounting data. In addition, the college needs to transfer financial aid funds for tuition and fee payments to the state's account in a more timely manner. The college needs to promptly record financial aid disbursements and tuition and fee revenue in MnSCU accounting. The college also needs to improve security over receipts prior to their deposit. We also found that the college had not adequately separated financial aid disbursement duties.

Our report also discusses other issues related to payroll, supply and equipment purchases, student organizations and enterprise activities, the college's relationship with its foundation, and an unresolved issue with Independent School District No. 206.

The college concurred with the audit report findings and recommendations. The college indicated that it has already taken corrective action on several areas as shown in the agency response.

Alexandria Technical College

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Audit Participation

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

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Renee Redmer, LPA	Audit Manager
Cecile Ferkul, CPA, CISA	Audit Director
Susan Rumpca, CPA	Auditor
Laura Peterson	Auditor

Exit Conference

We discussed the findings and recommendations with the following staff of Alexandria Technical College and the MnSCU system office at an exit conference held on June 27, 1997:

System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Al Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Alexandria Technical College:

Larry Shellito	President
Jan Mahoney	Dean of Administrative Services

Alexandria Technical College

Chapter 1. Introduction

Alexandria Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). The Legislature created MnSCU by merging the state of Minnesota community colleges, state universities, and technical colleges into one system of higher education. The merger was effective on July 1, 1995. Prior to that time, Alexandria Technical College was part of Independent School District No. 206. The college separated from the school district and became an independent unit within the MnSCU system. College president, Mr. Larry Shellito, guided the college through this period of transition.

The college typically served 1,900 students annually. The college employed approximately 100 full-time and 25 part-time instructors to provide training in such course studies as law enforcement, machine tool technology, and computer technical support. The college also had about 85 administrative and support staff. Administrative and support functions include admissions, registration, financial aid, business office, counseling, career guidance, marketing, and facility maintenance services.

The college's main financing sources for its operations were state appropriations, tuition, and fees. The MnSCU system office used an allocation formula to determine the college's share of the system-wide appropriation. The college also collected tuition and fees from students. The total of appropriations and local receipts established the spending authority for the college. The State Treasurer held these funds in the state treasury and the college accounted for them in the General Fund on both MnSCU's accounting system and the state's MAPS accounting system. Table 1-1 recaps the General Fund financial activity during fiscal year 1996.

Table 1-1
Alexandria Technical College
Fiscal Year 1996 General Fund Financial Activity

	<u>Amount</u>	<u>Percent</u>
Sources:		
State appropriation allocation	\$ 7,911,746	61%
Tuition and fees	4,484,898	35%
Other	<u>583,041</u>	<u>4%</u>
Total Sources	<u>\$12,979,685</u>	<u>100%</u>
Uses:		
Payroll (including benefits)	\$ 8,355,263	70%
Equipment and supplies	1,878,746	16%
Other	<u>1,681,992</u>	<u>14%</u>
Total Uses	<u>\$11,916,001</u>	<u>100%</u>

Source: MnSCU accounting system reports.

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Chapter 2 discusses the college's overall management of its financial resources. Chapter 3 describes the college's collection of tuition and fee receipts. Chapter 4 contains information about payroll expenditures. Chapter 5 discusses supply and equipment purchases.

The college also held some funds in local bank accounts, outside the state treasury. The college had one local account to disburse student financial aid and another for the local student organizations. The college recorded the financial activity of these local funds on MnSCU's accounting system, but did not post the activity to the state's MAPS system. Chapter 6 presents information about the college's distribution of federal student financial aid. In Chapter 7 we discuss student activity funds maintained in local accounts.

The college had several enterprises that operated within its domain. An enterprise operates as a business, and the college expects it to produce revenue sufficient to cover the cost of operations. The largest of the college's enterprises are the food service and a novelty store operated by one of the student organizations. Chapter 7 provides more information about these enterprises.

Finally, the college maintained a relationship with the Alexandria Technical College Foundation, an independent, nonprofit organization whose purpose is to improve the quality of student life at the college. Chapter 8 gives information about the college's relationship with this organization.

Chapter 2. Financial Management

Chapter Conclusions

Alexandria Technical College did not perform various reconciliations to ensure the accuracy of its accounting records. These reconciliations are critical to ensure the integrity of the college's accounting records.

The college designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. However, the college did not resolve an issue related to the MnSCU merger.

On July 1, 1995, Alexandria Technical College became a part of the MnSCU system. Previously, the college was part of Independent School District No. 206. The college retained its core administrative and office staff. The college's business office and financial aid office conducted the majority of the college's financial activity.

The college's administrators redistributed business office duties, incorporating functions that the school district had previously performed, such as payroll. The MnSCU merger challenged the college employees to learn state policies and procedures and use new business systems for accounting, payroll, and personnel functions.

MnSCU colleges record their financial information on two accounting systems:

- MnSCU Accounting is a system developed by the MnSCU system office to account for the detail of the colleges' financial activities. The college recorded its financial activity, including the receipt and expenditure of funds held in local bank accounts, on the MnSCU accounting system.
- The Minnesota Accounting and Procurement System (MAPS) is the state's primary accounting system. The MnSCU accounting system posts summary transactions to MAPS through an automated system interface. During the audit period the interface was only operational for receipts and expenditures affecting funds held in the state treasury. Posting of local account activity required a different type of system interface, which was not functional during that time. Eventually, the college will record all of its financial activity on both the MnSCU accounting system and MAPS.

In addition to the primary accounting systems, the college used various subsystems to process personnel and payroll transactions. Initially, the college used the state's Personnel and Payroll System (PPS) to process employee payroll. The state replaced the PPS system with a new personnel and payroll system -- the State Employee Management System (SEMA4). The

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MnSCU system office also developed a personnel and payroll system that interfaced with the state's systems. Alexandria converted to the new MnSCU system -- the State Colleges and Universities Personnel and Payroll System (SCUPPS) in July 1995 and to SEMA4 in August 1996. (We discuss payroll processing in more detail in Chapter 5.)

Audit Objectives and Methodology

Our primary objectives in assessing the college's overall financial management were to answer the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that it properly recorded its financial activities on the MnSCU and MAPS accounting systems?
- Did the college design and implement internal controls to provide reasonable assurance that it adequately safeguarded monies held in local bank accounts, accurately reported local account activity in the accounting records, and complied with applicable legal provisions and management's authorization?
- Did the college design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

To answer these questions, we made inquiries of the college staff to understand the recording of financial transactions. We reviewed the recording and reconciliation procedures between the various accounting systems and examined supporting documentation, including system reports. Finally, we reviewed financial management procedures for compliance with legal provisions.

Conclusions

Alexandria Technical College did not perform various reconciliations to ensure the accuracy of its accounting records. These reconciliations are critical to ensure the integrity of the college's accounting records. We discuss this weakness in Finding 1.

The college designed and implemented internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. However, the college did not resolve an issue related to the MnSCU merger, as discussed in Finding 2.

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1. Alexandria Technical College did not ensure the accuracy of its accounting records by performing three key reconciliations.

Alexandria Technical College did not perform various reconciliations to ensure the accuracy of financial transactions recorded on its various accounting systems.

- The college did not reconcile the MnSCU accounting system to MAPS on a regular, periodic basis. The college did reconcile financial activity once for fiscal year 1996 after the close of the year. During fiscal year 1997, the college made several attempts to reconcile the two systems. As of April 1997, however, it had not successfully reconciled the fiscal year 1997 General Fund activity.

Although transactions automatically interface from the MnSCU accounting system to MAPS, the MnSCU system office can post some transactions directly into MAPS. When this happens, the college staff must enter the corresponding transactions into the MnSCU accounting system. Also, some types of transactions, such as appropriations, do not interface, which increases the potential for discrepancies between the systems. For example, the college erroneously recorded one of its fiscal year 1997 appropriations, for \$14,000, twice on the MnSCU accounting system. This reconciliation would ensure that users of either system receive accurate, complete, and timely financial information.

- The college did not reconcile the monthly bank statements to the MnSCU accounting system. Standard MnSCU accounting system reports did not provide the college with the information it needed to efficiently perform this reconciliation. Reconciling the bank activity to the accounting records is a basic reconciliation that ensures complete and accurate financial data.
- For the financial aid programs, the college did not perform a four-way reconciliation among the bank statement, check register, program ledgers, and the MnSCU accounting system. Through April 1997, the college had reconciled the financial aid bank statement and the check register. However, the college did not include the program ledgers and the MnSCU accounting system in this reconciliation. Federal regulations require that schools account for financial aid activity on a program basis. Alexandria Technical College prepared program ledgers to satisfy this requirement. The college based drawdowns of federal funds on the program ledger amounts. The MnSCU accounting system summarizes financial aid activity for the use of college and MnSCU administrators. Including these financial records in the reconciliation process ensures the integrity of these records.

Periodic reconciliations between the various systems and to the recorded bank transactions ensure the accuracy of the transactions posted to these systems and detect posting errors in a timely manner.

Recommendation

- *Alexandria Technical College should ensure the accuracy of its accounting records by reconciling the MnSCU accounting system to MAPS, bank account activity to the MnSCU accounting system, and financial aid bank account activity to the program ledgers and the MnSCU accounting system.*

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2. Alexandria Technical College and Independent School District No. 206 have not resolved an item related to the MnSCU merger.

The college and Independent School District No. 206 (ISD No. 206) have not resolved an item related to the MnSCU merger. They have not agreed on the disposition of the school district's dental plan reserve. Technical college employees participated in a self-insured dental plan with ISD No. 206. When these employees became state employees on June 30, 1995, they received state dental insurance coverage, and they terminated their participation in the school district plan. The plan's balance as of June 30, 1995, was \$107,048. College employees have not received a distribution from the school district plan. The college and ISD No. 206 have not agreed on the method of allocation to the technical college employees.

The dental plan specifies the method to distribute reserve funds to members. The guidelines state that the plan should distribute the reserve funds to covered employees on a pro-rata basis according to their length of participation in the group. The college and ISD No. 206 should work together to determine the college's share of the reserve balance and allocate it to eligible college employees according to the plan guidelines. The school district would retain the reserve balance attributable to school district employees.

Recommendation

- *Alexandria Technical College should work with Independent School District No. 206 to determine the dental self-insurance fund distribution to eligible college employees.*

Chapter 3. Tuition and Fees

Chapter Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported tuition receipts in the accounting records and complied with applicable legal provisions and management's authorization. However, the college did not transfer tuition and fee receipts from the local financial aid account to the state treasury in a timely manner, resulting in the loss of state investment income and delays in posting to the accounting records. The college also did not adequately secure receipts prior to deposit.

Alexandria Technical College collected tuition and fees from students to supplement the operating funds provided through state appropriations. Many students enrolled in one of over forty programs that offered an Associate of Applied Science degree, a diploma, or a certificate. Minnesota residents paid \$40 in fiscal year 1996 and \$41.60 in fiscal year 1997 for each credit hour to attend these classes. The college also worked with businesses to determine the continuing education needs of their existing work force. The college designed "Customized Training" courses to meet specific businesses' needs. In addition, the college collected various fees to cover additional costs related to specific programs or lab materials, or to provide funding to local student organizations. For example, each student paid \$1 per credit as a technology fee, which the college used to provide Internet and e-mail access to students. Table 3-1, on the following page, shows the tuition and fee collections for fiscal year 1996.

Students paid nearly half of their tuition and fees with financial aid awards. Chapter 6 explains the awarding and payment of financial aid to students. The college credits financial aid awards directly to the students' accounts. Thus, these funds were not subject to the same control risks as cash payments made by students at the cashier's window.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that it safeguarded its revenue collections, accurately reported receipts in the accounting records, and complied with applicable legal provisions and management's authorizations?

To meet this objective, we reviewed the controls over the billing, collecting, and recording of tuition and fee revenue. We also tested transactions to determine the timeliness of deposits and the recording of revenue on the MnSCU and MAPS accounting systems.

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Conclusions

Alexandria Technical College did not transfer tuition and fee receipts from the local financial aid account to the state treasury in a timely manner, resulting in the loss of state investment income and inaccurate accounting records. The college also did not adequately secure receipts prior to deposit. Findings 3 and 4 discuss these weaknesses.

Table 3-1
Fiscal Year 1996 Tuition and Fees

	<u>Degree, Diploma, or Certificate Programs</u>	<u>Customized Training Courses</u>
State Tuition and Fees (net of refunds)		
Credit Course Tuition	\$3,210,675	\$503,462
Non-Credit Course Tuition	0	225,776
Course Fees	207,328	7,684
Lab Fees	10,841	20
Technology Fees	54,306	0
Administrative Fees	4,442	230,273
All Other Fees	<u>26,094</u>	<u>1,491</u>
Total State Tuition and Fees	<u>\$3,513,686</u>	<u>\$968,706</u>
Other Fees		
Student Activity Fees	\$ 165,074	\$ 0
Health Service Fees	35,905	0
Student Union Assn. Fees	<u>8,160</u>	<u>0</u>
Total Other Fees	<u>\$ 209,139</u>	<u>\$ 0</u>
Total Tuition and Fees	<u>\$3,722,825</u>	<u>\$968,706</u>

Source: Auditor prepared from the MnSCU accounting system.

3. Alexandria Technical College did not transfer financial aid awards for tuition and fees to the state treasury timely nor promptly record financial aid disbursements on the MnSCU accounting system.

Alexandria Technical College did not move financial aid funds from the local financial aid account to the state treasury at the time the tuition was due. The college typically drew federal financial aid funds, credited student accounts, and disbursed the balance of the financial aid award to students shortly after the start of the quarter. The college should have transferred the financial aid funds to the state treasury at the time that it applied students' financial aid awards to their tuition and fee liabilities. The college did not physically move the balance of these funds to the state treasury within a reasonable time. As shown in Table 3-2, the earliest the college transferred the funds was 29 days after the financial aid disbursement date.

The state did not earn investment income on the funds while they remained in the local financial aid account. Also, the college did not record financial aid disbursements and the state tuition receipts on the MnSCU accounting system until they transferred the funds from the local account to the state treasury. Thus, the accounting records did not provide timely data.

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Table 3-2 compares the financial aid disbursement date to the actual transfer date and estimates the state's loss of investment income. The number of days delay also represents the period during which the MnSCU accounting system records did not include these financial aid disbursements or tuition and fee receipts.

Table 3-2
Calculation of Financial Aid Transfer Delays

<u>Quarter</u>	<u>Financial Aid Disbursement Date</u>	<u>Transfer Date</u>	<u>No. of Days Delay</u>	<u>Transfer Amount</u>	<u>Estimated Lost Investment Income (1)</u>
Fall 1995	9/26/95	12/13/95	78 days	\$485,351	\$6,223
Winter 1995	12/21/95	2/22/96	63 days	590,379	6,114
Spring 1996	3/25/96	4/23/96	29 days	565,387	2,695
Fall 1996	9/24/96	10/24/96	30 days	649,658	3,204

Note (1) We calculated the estimated lost investment income using a six percent annual rate of return.

Source: Auditor prepared from MnSCU Accounting System.

The business office did not make the transfer of financial aid funds because it was unable to precisely determine the breakdown between state tuition and fee receipts and locally held fees, such as the fees collected for student organizations. The business office could estimate these amounts based on prior quarters and make adjustments when it determined the final figures. Beginning in fiscal year 1998, statutes permit MnSCU to retain interest earned on its balance of tuition and fees.

Recommendations

- *Alexandria Technical College should promptly transfer financial aid awards credited to students' tuition and fee liabilities into the state treasury.*
- *The college should promptly record financial aid disbursements and tuition and fee revenue in the MnSCU accounting system.*

4. Alexandria Technical College did not adequately safeguard some receipts prior to deposit.

Alexandria Technical College did not restrictively endorse checks at the time of receipt, but rather, waited until it prepared the deposit to endorse them. Restrictive endorsement of checks limits the ability of someone to cash lost or stolen checks.

Also, the college kept prepared deposits in an unsecured location in the business office. The various deposits remained in that location until an employee made the bank deposit at the end of the day. Although college staff would detect a missing deposit the next day, adequate safeguarding of the deposit while at the college would decrease the possibility of theft.

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Finally, the college did not promptly deposit some of the customized training receipts. Businesses or corporations submit payment for many of the customized training courses directly to the business office. However, customized training offered some courses to the general public who paid for the courses on an individual basis. Employees kept these receipts in files in the customized training office until after the class had taken place, which could have been several weeks after receipt. On April 17, 1997, we found \$2,354 in customized training course files for courses offered in May 1997. Minn. Stat. Section 16A.275 requires state agencies to deposit receipts in excess of \$250 daily. Customized training staff kept the payments so that they could return the payments to enrollees if a refund became necessary. The business office could use the local checking account to provide refund checks to customized training participants.

Recommendations

- *Alexandria Technical College should restrictively endorse checks upon receipt.*
- *The college should keep deposits in a secure place until deposited in the bank.*
- *The college should promptly deposit customized training receipts exceeding \$250.*

Chapter 4. Payroll Expenditures

Chapter Conclusions

Generally, the Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management authorizations. The college did not adequately document and authorize some payroll transactions.

Payroll was Alexandria Technical College's largest expenditure. The college's payroll expenditures for fiscal year 1996 were over \$8.3 million, 70 percent of all fiscal year 1996 expenditures. College employees belong to various compensation plans, including the American Federation of State and County Municipal Employees, the Middle Management Association, the Minnesota Association of Professional Employees, the Excluded Administrators Plan, the Commissioner's Plan, and the United Technical College Educators Plan. (During the course of our audit fieldwork, the United Technical College Educators Plan and MnSCU had not agreed to contract terms. Affected employees were operating under their previous contract with the school district. The state and the union reached an agreement in May 1997. The agreement provides for retroactive adjustments back to July 1, 1995.)

During fiscal year 1996, the college used the state's personnel and payroll system (PPS) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate information and calculated the amounts paid employees. In August 1996 the college began processing payroll information in the state's new SEMA4 payroll system while continuing to use SCUPPS. The college used SEMA4 to track leave accruals for classified employees, SCUPPS to track leave for the excluded administrators, and manual records to track faculty leave accruals.

Alexandria Technical College maintained separate human resources and payroll sections. The human resources section maintained staff appointments and assignments in SCUPPS. The payroll section collected employee time sheets and entered the payroll information into SEMA4.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization?

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To address this objective, we interviewed college staff to obtain a general understanding of the internal control structure over the payroll and personnel process, analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization, with two exceptions. The college did not adequately document and authorize some payroll transactions. See Finding 5 for further details.

5. The college did not adequately document and authorize some payroll transactions.

Although our testing found that adequate support existed for most of the college's routine payroll transactions, we found several instances where documentation was weak or lacking for other types of payroll activity.

First, college staff did not document the authorization of several overload assignments. Overload assignments are those that exceed a faculty member's regular teaching assignment. College staff set up some overload assignments in SCUPPS without documentation of the authorization. The only supporting documentation for some assignments was a list of employees and the expected hours worked. For two overload assignments, the college could not find supporting documentation explaining the reason for the assignments or the authorization. When the college did not require adequate documentation to set up SCUPPS assignments, it risked paying employees for unauthorized work.

Also, payments to a customized services contract employee were not in accordance with a signed agreement. The college's customized services staff signed an agreement with a contractor to provide training to a corporation's employees. The agreement showed the contractor's compensation as \$60 to \$70 per hour. The college, however, actually paid the contractor varying hourly rates depending on the types of work he performed. For example, the college paid the contractor \$25 per hour when working on "Development" and \$35 per hour when working on "Training." The agreement to pay the variable hourly rates was verbal.

Finally, employees did not always fill out timesheets completely, and management did not always approve timesheets consistently. The college requires all employees to fill out timesheets for any activities other than regularly assigned faculty course loads. Time sheets are a key control to ensure that the college pays employees only for hours worked or while on approved leave. We found some timesheets that did not contain critical information, such as the applicable pay period. Also, we found some timesheets that did not have supervisory signatures authorizing payment. Without complete and authorized timesheets, the college could not substantiate that payments to employees were proper.

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Recommendations

- *The college should improve its documentation of overload assignment approvals.*
- *The college should consistently adhere to the terms of contracts, or amend them as the need arises.*
- *The college should verify that employees fill out complete and accurate timesheets. Supervisors should document their approval of subordinates' timesheets.*

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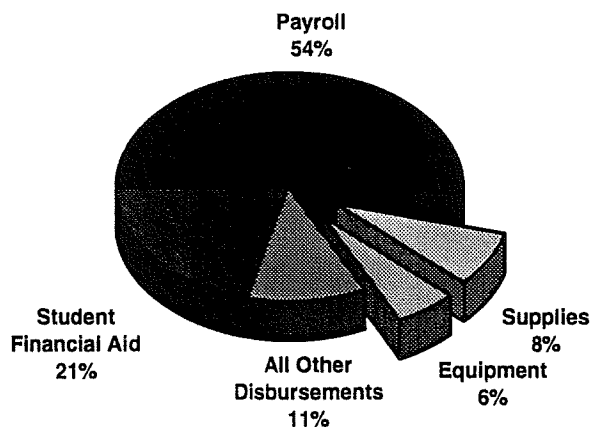
Chapter 5. Supply and Equipment Purchases

Chapter Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records and adequately safeguarded fixed assets from theft or loss. The college needs to improve its documentation of purchase authorizations and the timeliness of some of its payments.

Alexandria Technical College purchased equipment totaling \$993,041 and supplies totaling \$1,318,405 during fiscal year 1996. Most of these purchases were for college operations, but some were for local student organizations, federal grant activities, or enterprise operations. (We describe local student organizations and enterprise operations in Chapter 7.) Figure 5-1 shows the relationship of the college's supply and equipment purchases to its total disbursements. Table 5-1 shows the breakdown of supply and equipment purchases between the college's General Fund operations, the student organizations, federal grant activities, and the enterprise activities.

**Figure 5-1
Fiscal Year 1996 Expenditures**



Source: MnSCU accounting system records.

Table 5-1
Supply and Equipment Expenditures by Fund
Fiscal Year 1996

<u>Fund</u>	<u>Amount</u>	<u>Percent</u>
General Operations	\$1,885,273	82%
Student Organizations	24,239	1%
Federal Programs	123,345	5%
Gift Fund	2,784	0%
Enterprise Activities	275,805	12%
Total	<u>\$2,311,446</u>	<u>100%</u>

Source: MnSCU accounting system records.

The general process established by the college for supply and equipment purchases included the use of requisitions and purchase orders. The requisition form ensured that management reviewed the appropriateness of items prior to purchase and that there were funds available to purchase the item. The business office entered data from the requisition form into the MnSCU accounting system and produced a purchase order document. When they received the vendor's invoice, the business office compared the invoiced item and the amount of the invoice to the original purchase order and verified that the college had received the goods. The business office then processed the payment to the vendor through the MnSCU accounting system. For purchases of fixed assets, the business office assigned and affixed a state fixed asset sticker to the item, and entered those items into their inventory system. Periodically, the college conducted a complete physical inventory to validate the accuracy of its fixed asset records.

Many of the college's supply and equipment purchases were for fairly small amounts for recurring purchase items. Figure 5-2, on the following page, shows the volume and value of the supply and equipment purchases.

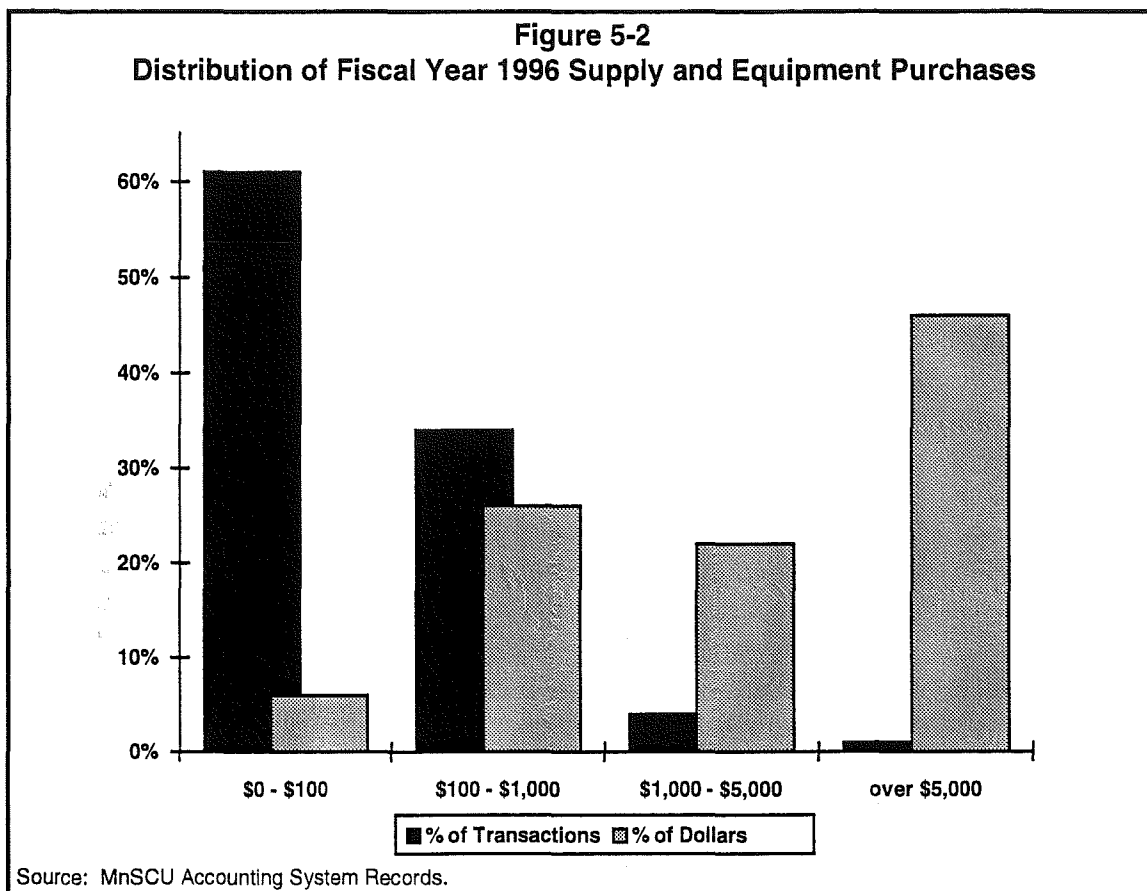
Audit Objective and Methodology

Our primary audit objective was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records, adequately safeguarded fixed assets from theft or loss, and complied with applicable legal provisions and management's authorization?

To address this objective, we interviewed college staff to obtain a general understanding of the internal control structure over the purchasing and payment processes, analyzed supply and equipment disbursement data, reviewed source documents to determine proper authorization, and verified the existence of some fixed asset purchases.

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Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records and adequately safeguarded fixed assets from theft or loss. The college needs to improve its documentation of purchase authorizations and the timeliness of some of its payments. Findings 6 and 7 describe these weaknesses.

6. Alexandria Technical College did not adequately document its authorization of some purchases.

We examined 19 supply and equipment purchases exceeding \$5,000. We found that the college did not properly document five of the purchases through the use of requisitions and purchase orders. In some cases, the only documentation for the payment was either the invoice or the purchase order. Documentation was more likely to be inadequate for payments of student organization expenses. For example, one of the items tested was a payment to a hotel related to a student organization trip. The college prepared the \$5,789 payment prior to the group's travel and the accompanying faculty member delivered the payment to the hotel. The college's only documentation for the payment was a purchase order. The college did not require that the faculty member provide subsequent support for the payment, such as a detailed bill from the hotel.

Alexandria Technical College

Another sample item was for the purchase of an automobile for the college's use. The secretary of one of the college's vice presidents and the lead custodian signed the requisition for the purchase of a \$13,500 vehicle. Although college officials verified that the purchase of the vehicle was legitimate, we do not believe that the college authorized these employees to requisition this purchase on behalf of the college.

Requisitions and purchase orders document that appropriate staff authorized the college's purchases and verified the availability of funds to make the purchase. Invoices document that the college actually spent funds for the requisitioned and ordered items. When the college does not consistently apply the controls, the risk increases that inappropriate or unauthorized transactions may occur.

Recommendations

- *The business office should require that staff use requisitions and purchase orders, and that these documents be properly authorized.*
- *The business office should require and retain adequate documentation to support expenditures.*

7. The college made some payments more than 30 days after receiving the ordered goods.

The college paid 4 of the 19 sample payments later than 30 days after the receipt of the vendor's invoice or the receipt of the goods or service, whichever was later. Also, three other invoices or receiving documents did not note the date of the receipt of goods, making it difficult to determine whether prompt payment occurred. The business office was not able to enter accurate "occurrence date" information into the MnSCU accounting system for these transactions. Minn. Stat. Sec. 16A.124 requires timely payment of state obligations within the 30-day limit. The Legislature established this limit to ensure that state vendors could rely on prompt payment of their invoices. The statute allows vendors to charge interest if state agencies do not process payments within the limit.

Recommendation

- *Alexandria Technical College should make payments to vendors within the 30-day statutory prompt payment limit.*

Chapter 6. Federal Student Financial Aid

Chapter Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it managed federal student financial aid programs in compliance with applicable general and specific program requirements. It did not, however, adequately separate the awarding and disbursing functions. The college complied with applicable general requirements over federal cash management and financial reporting in its management of federal student financial aid programs for the items tested.

Alexandria Technical College participated in several federal student financial aid programs administered by the U.S. Department of Education, as shown in Table 4-1.

Table 4-1
Federal Student Financial Aid Expenditures
Fiscal Year Ended June 30, 1996

<u>CFDA No.</u>	<u>Major Federal Program</u>	<u>FY 1996 Total</u>
84.032	Federal Family Education Loan (FFEL)	\$2,376,680
84.063	Pell Grant	\$1,036,802
	<u>Non-Major Federal Program</u>	
84.007	Supplemental Education Opportunity Grant (SEOG)	\$166,887
84.033	Work-Study	\$120,919

Note: SEOG and Federal Work-Study expenditures include both the federal and state share.

Sources: 1995-96 Fiscal Operations Report and Application (FISAP), FFEL expenditures from the college financial aid office staff.

The U.S. Department of Education developed federal regulations for each Title IV federal financial aid program. With the exception of the Federal Unsubsidized Stafford Loan and Federal PLUS programs (both of which are part of the Federal Family Education Loan Program), a student must demonstrate financial need to be eligible for financial aid. Financial need is the difference between the student's cost of attendance budget and the expected family contribution. The expected family contribution represents the family's ability to pay for education costs. The federal government determines the expected family contribution based on financial data supplied by students.

The first source of assistance to students is the Federal Pell Grant. The college determines the Federal Pell Grant awards using the cost of attendance and the expected family contribution. The U.S. Department of Education provides Federal Pell Grant funds to each campus based on

Alexandria Technical College

eligible students enrolled. All eligible students receive Federal Pell Grant awards. The maximum Federal Pell Grant award per student was \$2,470 for 1996-97 school year.

The Federal Family Education Loan (FFEL) Program included subsidized and unsubsidized Federal Stafford Loans. Private lenders provide the principal for these loans. The federal government guarantees the loans and reimburses the lender in the event of default or cancellation. For subsidized Stafford Loans, the federal government pays interest to the lender while the student is attending school. The college determines a student's eligibility and certifies a loan amount on the loan application. The college sends the application to a guarantee agency for approval. Once the guarantee agency and the lender approve the loan, the lender sends the loan proceeds to the college, which releases those proceeds to the student.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable general and specific program requirements?
- Did the college comply with applicable general requirements in its management of federal student financial aid programs for the items tested?

To meet these objectives, we interviewed business office and financial aid office personnel at the college. We reviewed the design and implementation of internal controls over determining student eligibility, awarding, packaging, and disbursing financial aid. We also reviewed the design and implementation of internal controls over compliance with federal cash management and federal reporting requirements.

Conclusions

Generally, Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it managed federal student financial aid program in compliance with applicable general and specific program requirements. It did not, however, adequately separate the awarding and disbursing functions. The college complied with applicable general requirements over federal cash management and financial reporting in its management of federal student financial aid programs for the items tested. Finding 8 discusses the weaknesses noted.

Finding 1, in Chapter 2, notes that the college did not ensure the accuracy of the financial aid program ledgers and the MnSCU accounting system by performing a four-way reconciliation among the bank statement, check register, program ledgers, and the MnSCU accounting system. In addition, Finding 3, in Chapter 3, discusses the untimely posting of financial aid expenditure transactions to the MnSCU accounting system.

Alexandria Technical College

8. Alexandria Technical College did not adequately separate incompatible duties for the financial aid process.

Alexandria Technical College did not adequately safeguard financial aid funds by separating incompatible duties within the financial aid process. The financial aid office awarded financial aid, posted the awards to the student accounts receivable system, and generated checks to students. In addition, the financial aid office received other financial aid checks, such as checks for the Federal Family Education Loan (FFEL) Program. The financial aid office forwarded the checks to the business office, where business office employees released the checks to students. Good internal controls require a separation of incompatible duties. In the financial aid process, employees who award financial aid should not have access to those funds.

Another weakness was that one business office employee had responsibility for the financial aid accounting records and for reconciling the bank account. This employee also had access to the financial aid funds. Employees with access to the funds should not be responsible for posting awards to the accounting records or reconciling the bank account.

Since the college has not separated incompatible duties within the federal financial aid process, it cannot rely on the internal control system to prevent or detect errors and irregularities in a timely manner.

Recommendation

- *Alexandria Technical College should separate duties so that employees who award financial aid do not have access to financial aid funds. In addition, the college should separate duties so that one employee does not have responsibility for both the accounting records and reconciling the bank account, plus have access to the financial aid funds.*

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Chapter 7. Student Activities and Enterprise Accounts

Chapter Conclusions

Alexandria Technical College appropriately exercised its legal authority to collect and deposit student activity receipts. The college used the receipts for the intended purposes, except that the college's Student Senate provided the Minnesota Technical College Student Association with an \$11,000 interest-free loan.

Generally, the college designed and implemented internal controls to provide reasonable assurance that it accurately recorded enterprise operations in the accounting records and complied with applicable legal provisions and management's authorizations. However, the college needs to improve its coding of student activity and enterprise account transactions. The college needs to improve its safeguarding of food service and DECA Store receipts.

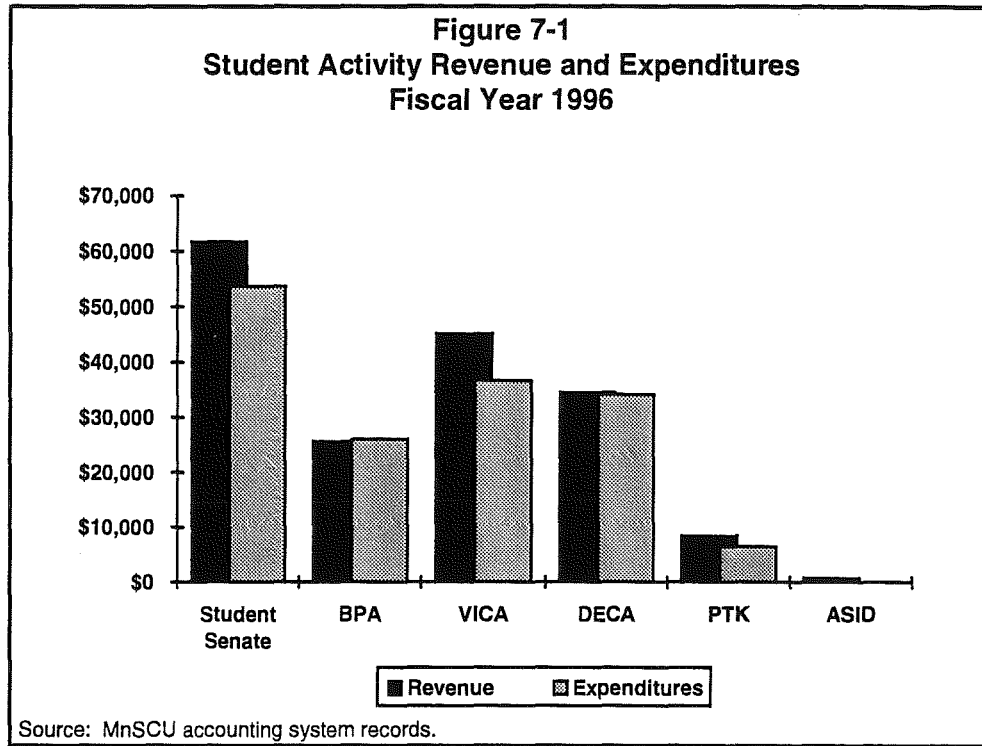
Alexandria Technical College accounted for six student organizations in the special revenue fund.

The objectives of the student activity groups were:

- **Student Senate**: to improve the relationships between students, the college, and the community and to promote the ideals of leadership and citizenship throughout the student body.
- **Business Professionals of America (BPA)**: to enhance student leadership abilities, encourage the use of ethical practices, and assist in establishing realistic employment objectives.
- **Vocational Industrial Clubs of America (VICA)**: to enhance student leadership abilities, provide information and activities, and encourage excellent work ethics.
- **Distributive Education Clubs of America (DECA)**: to develop education in marketing and distribution that will contribute to occupational competence, and to promote understanding and appreciation for the responsibilities of citizenship in the free, competitive enterprise system.
- **Phi Theta Kappa (PTK)**: to promote scholarship, to develop leadership and service, and to cultivate fellowship among students.
- **American Society of Interior Designers (ASID)**: to enhance the relationship between the students, the college, and the professionals of interior design and to ease the transition of students into the work environment.

The main sources of revenue for these organizations were student activity fees and fund raising. Figure 7-1 shows the fiscal year 1996 revenue and expenditures of the student organizations.

Alexandria Technical College



The college also had several enterprise activities. The largest of these were the college's food service operations and the DECA organization's novelty clothing and supply store. An enterprise operates as a business, and the college expected it to produce revenue at least sufficient to cover the cost of operations. Table 7-1 shows the food service and DECA Store revenues and expenditures for fiscal year 1996.

**Table 7-1
Major Enterprise Activities
Fiscal Year 1996**

<u>Activity</u>	<u>Revenues</u>	<u>Expenditures</u>
Food Service	\$257,470	\$252,830
DECA Store	\$148,802	\$160,387

Source: MnSCU accounting system records.

Audit Objectives and Methodology

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

- Did the college have the legal authority to collect and deposit student activity receipts and use the receipts for the intended purpose?

Alexandria Technical College

- Did the college design and implement internal controls to provide reasonable assurance that it accurately recorded enterprise operations in the accounting records and complied with applicable legal provisions and management authorizations?

To address these objectives, we interviewed college staff to obtain a general understanding of the receipt and payment processes related to student activities and enterprise operations, reviewed Minnesota Statutes to determine the legal authority to collect and deposit the receipts, and analyzed MnSCU receipt and disbursement transactions.

Conclusions

Alexandria Technical College designed and implemented internal controls to provide reasonable assurance that it had legal authority to collect and deposit student activity receipts, and that it used the receipts for the intended purposes, except that the college's Student Senate provided the Minnesota Technical College Student Association with an \$11,000 interest-free loan. We explain this weakness in Finding 9.

Generally, the college designed and implemented internal controls to provide reasonable assurance that it accurately recorded enterprise operations in the accounting records and complied with applicable legal provisions and management's authorizations. However, the college needs to improve its coding of student activity and enterprise account transactions. The college needs to improve its safeguarding of food service and DECA Store receipts. Findings 10 and 11 describe these weaknesses.

9. The college's Student Senate gave an \$11,000 interest-free loan to the Minnesota Technical College Student Association.

In October 1995, the college's Student Senate gave an \$11,000 interest-free loan to the Minnesota Technical College Student Association. The association is the parent organization for technical college student senates throughout Minnesota. The association repaid the loan in December 1995.

According to the ATC Student Senate Bylaws, the purpose of the organization is:

To continually look for ways to improve the community-student relationships; to further and improve student participation in school activities; to organize, maintain, and stimulate activities in the school; to promote in all ways, the best interests of the Alexandria Technical College, to promote the ideals of leadership and citizenship throughout the student body; to aid in the internal administration of the school; to improve student-faculty relations; and to provide better means for student expression.

We do not find that the bylaws provide the Student Senate with the authority to make this payment.

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Recommendation

- *Alexandria Technical College should use student activity fees only for the intended purpose as set forth in the student activity bylaws.*

10. The college did not identify some course fee, student activity, and enterprise account transactions accurately on the MnSCU accounting system.

The college coded many of the course fee and student activity payments to an object code that did not accurately describe the transaction. For example, the college coded as "Other supplies purchased for resale" a \$38,700 payment of course fees to St. Cloud State University for a law enforcement skills training driving course. The college coded many other course fee and student activity payments to this same object code. Inaccurate identification of these disbursements limits the ability of the college and the student organizations to use the accounting data effectively.

Also, the DECA Store paid for some DECA organization costs directly, rather than providing funds to the student organization. Although the disbursements still served the needs of the organization, these disbursements appeared on the accounting records as operational costs of the DECA Store instead of costs of the student organization. In order to accurately reflect the store's operations and determine its profitability, the DECA Store should keep its accounting separate from that of the student organization.

Recommendations

- *Alexandria Technical College should code student activity disbursements using the object code most descriptive of the disbursement.*
- *Alexandria Technical College should keep the financial activities of the DECA Store separate from the activity of the supporting DECA student organization.*

11. The food service and the DECA Store did not adequately safeguard receipts.

The food service and the DECA Store did not restrictively endorse checks upon receipt. Staff did not endorse the checks until they prepared receipts for the daily bank deposit. Restrictive endorsement of checks limits the ability of someone to cash lost or stolen checks.

The food service also did not provide adequate security over its cash register receipts. The cash registers are accessible to food service users and do not properly secure receipts. We observed unauthorized college staff accessing the cash registers to pay for their own purchases and take their own change. In order that the cash registers are sufficiently secure, authorized college staff need to limit and control access to the cash they contain.

Recommendations

- *Alexandria Technical College should restrictively endorse food service and DECA Store checks upon receipt.*
- *Alexandria Technical College should ensure that it adequately safeguards its food service receipts until deposited in the bank.*

Chapter 8. Alexandria Student Center Foundation

Chapter Conclusions

Alexandria Technical College did not have an appropriate operating relationship with the Alexandria Student Center Foundation. The college should continue working to establish the foundation as an organization that is autonomous from the college.

In May 1971, local community and business leaders, along with administrators of the college, created the Alexandria Student Center Foundation. The initial purpose of the foundation was to provide a "student center" for the recreational use of the college's students, to produce student identification cards, and to publish a college yearbook. The foundation has also operated the student bookstore and managed scholarship and trust funds. The college students paid membership dues at the time of registration. As required by state law, the foundation had an annual independent audit of its financial statements.

The foundation is a nonprofit corporation, legally separate from the college. Consequently, state policies and procedures do not apply to the foundation's operations.

Audit Objective and Methodology

The primary objective of our audit was to determine:

- Did the college design and implement internal controls to provide reasonable assurance that it had an appropriate operating relationship with related organizations?

To meet this objective, we interviewed business office personnel and the foundation's contractor. We reviewed the documents that established and defined the foundation. We gained an understanding of the changes the college and the foundation had made since the MnSCU merger. We limited our work to a review of the college's relationship with the foundation. We did not perform an audit of the Alexandria Student Center Foundation.

Conclusion

We found that Alexandria Technical College did not have an appropriate operating relationship with the Alexandria Student Center Foundation. The college should continue to work toward the establishment of an autonomous relationship from the foundation.

Alexandria Technical College

12. Alexandria Technical College did not have an appropriate operating relationship with the Alexandria Student Center Foundation.

During our audit period, the college did not have an appropriate relationship with the Alexandria Student Center Foundation. The organizations are moving toward a more distinct definition of their identities, roles, and responsibilities. Since the foundation is an organization legally separate from the college and not subject to state controls and oversight, it can perform functions that are not possible under MnSCU authorizing statutes. For example, the foundation can use its funds to produce fundraising materials and conduct fundraising events.

The foundation's current fundraising materials do not state that donors should make contributions directly to the foundation. Nothing in the materials identified that there was a foundation involved with the campaign. The college should ensure that the public does not confuse the two organizations.

Prior to the MnSCU merger, the college administrators were very involved in the operations of the Alexandria Student Center Foundation. The original bylaws specified that the college's president and vice president, officers of the Student Senate, members of the college's advisory committee, and two directors at-large would comprise the board's membership. College employees could be board members. The college and the foundation conducted financial transactions that confused the lines of responsibility, the ownership of assets, and the foundation's functional autonomy.

In September 1994, in anticipation of the MnSCU merger, the college and the foundation began working to make the two entities more autonomous. The foundation hired an independent contractor to restructure the foundation, restate the foundation's articles of incorporation and by-laws, and to develop and supervise a fundraising program. The college stopped assessing students a foundation membership fee, the foundation's main source of operating funds, after the college merged with MnSCU on July 1, 1995.

The college and the foundation signed an agreement effective July 1, 1996, through June 30, 1997, which defined the services the college would provide to the foundation and how the foundation would compensate the college for those services.

Under the restructuring, the foundation board would have more control over foundation financial activities. It would meet at least twice per year and elect its own board members. The existing board would select its new members from an internally developed list of interested parties. The restructured by-laws prohibit college employees from being board members. Thus, the college's president and vice president, along with the Student Senate officers would no longer be members of the foundation board. The foundation president signed the restated articles of incorporation on April 17, 1997. Alexandria Technical College's Student Senate approved the proposed restructuring in May 1997.

While the college has taken some steps to separate the two entities and define their duties and responsibilities, it must continue this process to ensure the two entities operate autonomously.

Recommendation

- *Alexandria Technical College should continue to establish the Alexandria Student Center Foundation as an autonomous entity.*

Alexandria

TECHNICAL COLLEGE

1601 Jefferson Street • Alexandria, MN 56308-3799
Ph: 320•762-0221 • Fax: 320•762-4501

July 8, 1997

Mr. James Nobles
Legislative Auditor
100 Centennial Office Building
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit recently completed at the Alexandria Technical College. We would like to thank you and your staff for the professional manner in which your recent audit was conducted. The findings and recommendations will help us improve our financial management and service to our students.

Listed below is our response to each individual finding:

1. **Alexandria Technical College did not ensure the accuracy of its accounting records by performing three key reconciliations.**

The MnSCU accounting system will be reconciled to MAPS on a quarterly basis.

Responsible parties: Jan Mahoney, Joan Stich
Implementation date: Quarter beginning 7/1/97

The MnSCU accounting system will be reconciled monthly to the local bank account.

Responsible parties: Jan Mahoney, Julie Fenlason
Implementation date: Month ending 6/30/97

The MnSCU accounting system will be reconciled monthly to the financial aid bank account and the financial aid program ledgers.

Responsible parties: Jan Mahoney, Julie Fenlason
Implementation date: Month ending 6/30/97

2. **Alexandria Technical College and Independent School District No. 206 have not resolved an item related to the MnSCU merger.**

Both parties have signed an agreement and the school district has reserved funds for distribution to eligible college employees. The college will consult legal counsel to determine the method of distribution for pre-tax compensation.

Responsible parties: Larry Shellito, Jan Mahoney
Implementation date: As to agreement – 6/13/97
As to distribution – 12/30/97

3. **Alexandria Technical College did not transfer financial aid awards for tuition and fees to the state treasury timely nor promptly record financial aid disbursements on the MnSCU accounting system.**

The college will promptly transfer financial aid awards to the state treasury and record disbursements on the MnSCU accounting system.

Responsible parties: Jan Mahoney, Julie Fenlason, and Joan Stich
Implementation date: 7/1/97

4. **Alexandria Technical College did not adequately safeguard some receipts prior to deposit.**

The college will restrictively endorse checks upon receipt.

Responsible parties: Jan Mahoney, Diane Nokes
Implementation date: 4/21/97

The college will keep deposits in a secure place until deposited in the bank.

Responsible parties: Jan Mahoney, Greg Lieser
Implementation date: 4/21/97

The college will promptly deposit customized training receipts exceeding \$250.

Responsible parties: Kevin Kopischke, Jan Mahoney
Implementation date: 4/21/97

5. **The college did not adequately document and authorize some payroll transactions.**

The college will improve its documentation of overload assignments, consistently adhere to the terms of contracts, and verify that timesheets are filled out completely to include the pay period and supervisor signature.

Responsible parties: Larry Shellito, Doug Tatge, Jan Mahoney, Shari Maloney, Priscilla Thompson
Implementation date: As to verification of time sheets – 4/21/97
As to documentation and terms – 7/1/97

6. **Alexandria Technical College did not adequately document its authorization of some purchases.**

The college does require that staff uses requisitions and purchase orders that are properly authorized. The business office staff will follow up on unauthorized purchases and require more detailed documentation to support certain types of expenditures.

Responsible parties: Larry Shellito, Jan Mahoney, Joan Stich
Implementation date: 7/1/97

7. **The college made some payments more than 30 days after receiving the ordered goods.**

The college will require staff to promptly submit invoices to the business office for payment.

Responsible parties: Jan Mahoney, Joan Stich
Implementation date: 4/21/97

8. **Alexandria Technical College did not adequately separate incompatible duties for the financial aid process.**

The college will restructure functions of the financial aid and business office staffs to more completely separate duties.

Responsible parties: Jan Mahoney, Marland Nohre
Implementation date: 8/1/97

9. **The college's Student Senate gave an \$11,000 interest-free loan to the Minnesota Technical College Student Association.**

Student Senate leadership will restrict its activities for the purposes outlined in the bylaws.

Responsible parties: Dennis Thompson
Implementation date: 7/1/97

10. **The college did not identify some course fees, student activity, and enterprise account transactions accurately on the MnSCU accounting system.**

The college will use object codes on disbursements that are more reflective of the purpose of the payment. The DECA Store will not make payments to vendors that support DECA student organization activities.

Responsible parties: Jan Mahoney, Joan Stich
Implementation date: 7/1/97

11. **The food service and the DECA Store did not adequately safeguard receipts.**

All checks received in the DECA Store and Food Service will be restrictively endorsed upon receipt.

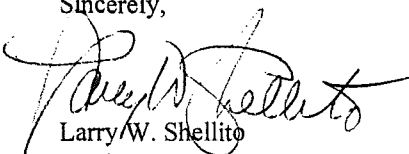
Responsible parties: Laura Klassen, Sandy Majerus
Implementation date: 4/21/97

12. **Alexandria Technical College did not have an appropriate operating relationship with the Alexandria Student Center Foundation.**

The Board of Directors of the Alexandria Student Center Foundation approved the revised Articles of Incorporation and Bylaws, which enables the Foundation to operate autonomously.

Responsible parties: Kathy Nohre
Implementation date: 5/14/97

Sincerely,



Larry W. Shellito
President