

# **St. Paul Technical College**

## **Financial Audit**

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

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**August 1997**

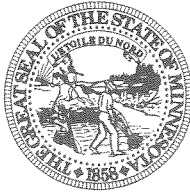
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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-41**





STATE OF MINNESOTA  
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Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Donovan Schwichtenberg, President  
St. Paul Technical College

We have audited St. Paul 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, materials, purchased services and equipment, and enterprise funds. 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 government 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 St. Paul Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of St. Paul Technical College is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of St. Paul Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 8, 1997.

James R. Nobles  
Legislative Auditor

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: May 23, 1997

Report Signed On: August 4, 1997



# SUMMARY

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## St. Paul Technical College

### Financial Audit

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No. 97-41

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### Background

St. Paul Technical College operated as part of St. Paul Public Schools until June 30, 1995. On July 1, 1995, the college became part of the Minnesota State Colleges and Universities System (MnSCU) when the state merged the community colleges, state universities, and technical colleges. The college finances its operations through student tuition, fees, and state appropriations. Dr. Donovan Schwichtenberg is the current college president.

Our audit scope covered the period from July 1, 1995, through December 31, 1996. We audited general financial management controls, tuition and fees, federal revenue, payroll, materials, services, equipment, and enterprise fund activities. We also reviewed the administration of state and federal student financial aid programs for fiscal year 1997.

### Conclusions

St. Paul Technical College had several internal control problems, particularly with processing personnel/payroll, purchasing materials and supplies, and determining the completeness of tuition receipts. Inexperienced staff were required to learn new business systems. As a result, transaction processing took priority over developing the internal control structure.

Improvements were made in recording transactions for fiscal year 1997; however, the college has not achieved effective control over these transactions. The college had effective internal controls over other areas, such as monitoring revenue and expenditures against budgets, safeguarding tuition deposits, recording and reconciling local banking activities, and assuring compliance with student financial aid regulations.

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.



# St. Paul Technical College

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## Table of Contents

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	Page
Chapter 1. Introduction	1
Chapter 2. Financial Management	3
Chapter 3. Tuition, Fees, and Other Revenue	7
Chapter 4. Payroll Expenditures	13
Chapter 5. Materials, Purchased Services, and Equipment	17
Chapter 6. Student Financial Aid	23
Chapter 7. Enterprise Funds	27
Agency Response	31

### Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Brad White, CPA, CISA	Audit Director
Beaujon Guerin	Senior Auditor
Sonya Hill, CPA	Senior Auditor
Eric Wion	Staff Auditor

### Exit Conference

We discussed the findings and recommendations with the following representatives of the St. Paul Technical College and the System Office at exit conferences held on July 15, 1997, and July 17, 1997:

#### System Office:

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

#### St. Paul Technical College:

Donovan Schwichtenberg	President
Ron Zaudke	Business Manager
Denis Kelly	Accounting Supervisor Senior
Bill Nicol	Accounting Supervisor





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## Chapter 1. Introduction

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St. Paul Technical College operated as part of the St. Paul Public School District No. 625 through June 30, 1995. On July 1, 1995, the college consolidated and became part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when it merged 8 state universities, 21 community colleges, and 34 technical colleges, including St. Paul Technical College, into one common system. Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision I, authorized the transfer of real property, personal property, improvements, and attachments related to technical colleges to the state.

St. Paul Technical College provided education and training for a diverse student population. The college was accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. The college offered 57 majors, 16 Associate in Applied Science (AAS) degree programs, as well as other diploma and certificate programs. St. Paul Technical College served enrollment of approximately 2,700 full-year equivalent (FYE) students for the 1996-97 school year. Dr. Donovan Schwichtenberg is the college president.

The college funds the majority of its operations from General Fund appropriations and student tuition and fees. These funds are administered in the state treasury. The MnSCU system office allocates appropriated funds to St. Paul Technical College based on an allocation formula used for all technical colleges. The college also administers funds in local bank accounts outside the state treasury. These funds include financial aid, agency accounts, and enterprise activities.

Table 1-1 shows the financial activity of the college during fiscal year 1996.

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**Table 1-1**  
**Fiscal Year 1996 Financial Activity (1)**

Sources:	
State appropriation allocation	\$11,942,743
Tuition and fees	6,018,646
Student financial aid and other federal grants	4,585,243
Bookstore and food service sales	1,359,965
Other Sources	<u>1,243,692</u>
Total Sources	<u>\$25,150,289</u>
Uses:	
Payroll	\$13,783,609
Materials, Purchased Services, and Equipment	3,816,528
Financial Aid and Scholarships	2,929,484
Other uses	<u>3,087,166</u>
Total Uses	<u>\$23,616,787</u>

(1) Final balances not available as of the end of fieldwork, MnSCU accounting was not closed.

Source: MnSCU accounting system reports.

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## **St. Paul Technical College**

Chapter 2 discusses overall financial management of the college. Chapter 3 includes our review of tuition and fee collections. In Chapter 4 we discuss our review of personnel and payroll expenditures. Chapter 5 covers materials, purchased services, and equipment.

St. Paul Technical College retains certain funds in its local bank account outside the state treasury. These activities include student financial aid as discussed in Chapter 6. Chapter 7 includes our review of enterprise fund activities for the bookstore, food service, and satellite telecommunication operations of the college. The college records student financial aid and enterprise fund activities in the MnSCU accounting system, but like other colleges, has not been required to record the activity in the state's accounting system.

St. Paul Technical College was affiliated with the St. Paul Technical College Foundation, which is a non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts and, until fiscal year 1997, has not been required to have an annual audit of its financial statements. The current contract between the college and the foundation requires an annual external audit of the foundation. The college provided half of one employee's time to the foundation for fundraising activities. We found that, in return, the foundation provided student scholarships and grants which benefit the educational mission of the college.

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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*St. Paul Technical College did not design and implement controls to provide reasonable assurance that it properly administered several financial activities. The college had inexperienced accounting staff which were required to learn and implement new MnSCU business systems. We noted several internal control weaknesses over tuition and fees, personnel and payroll, material and service expenditures, and equipment, as discussed in the individual chapters of this report. We found that the college did not reconcile MnSCU accounting to state treasury cash, revenue, and expenditure balances timely. In addition, we noted that security controls to access its accounting and payroll systems were weak.*

*We did find that the college had effective controls to monitor its revenue and expenditure budgets. In addition, the college properly recorded and reconciled its bank account activities.*

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The St. Paul school district handled St. Paul Technical College accounting and financial operations through June 30, 1995. At that time, the majority of the financial staff remained with the school district, requiring the college to hire many new staff. These staff had to learn state rules and regulations, as well as new computerized systems. There are currently eleven employees in the Business Office, including tuition and payroll staff and three employees in the Human Resources Office.

### **Financial Systems**

St. Paul Technical College began to utilize new computerized accounting and payroll systems when MnSCU merged on July 1, 1995. The new computerized accounting system, MnSCU accounting, was used to operate and administer the college's financial activities. All campuses were required to utilize MnSCU accounting for financial activities including state treasury and local activity accounts. The college used the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage personnel and payroll for its employees.

In addition, the state of Minnesota implemented a new computerized accounting system and a new personnel/payroll system that began operations on July 1, 1995. The state developed an accounting system called Minnesota Accounting and Procurement System (MAPS). The new personnel/payroll system is referred to as the State Employee Management System (SEMA4). MnSCU accounting and SCUPPS financial information interfaces directly into MAPS and SEMA4. MAPS and SEMA4 then generate warrants from the state treasury.

The convergence and complexity of these new systems had a significant impact on the financial operations of St. Paul Technical College. Staff needed training and experience to use these new

## **St. Paul Technical College**

systems. Many system features were still in the process of development. Our report on Minnesota State Colleges and Universities System, Transition of Technical Colleges into State Government for the year ended June 30, 1996 (Report No. 96-35), identified that MnSCU had not fully implemented its business systems to ensure the integrity of its transactions and to provide complete financial information. Processing transactions was a top priority for the college during the transition period. The college began to design and implement internal controls once it became familiar with system processing and reports.

We found some improvement in financial operations between the fiscal year 1996 transition period and fiscal year 1997. College management and staff understanding of system processing was improved and the reliability of financial information has gradually increased. The college accounts for all financial activities in the MnSCU accounting system. We noted, however, that the college still made several adjustments after December 31, 1996, to correct fiscal year 1996 MnSCU accounting system balances. St. Paul Technical College has not formally closed out fiscal year 1996 financial activity in the MnSCU accounting system.

### **Budgetary Controls**

St. Paul Technical College used the MnSCU accounting system to monitor revenue and expenditures against expected budget levels. Appropriation and tuition revenue estimates were used to develop spending budgets for each academic and administrative area of the college. The budgets provided control over individual cost center expenditure spending levels. A portion of resources were not allocated to provide assurance that the college operated within available resources. Other activities such as enterprise funds were similarly controlled with revenue and expense budgets.

The college business office distributed MnSCU accounting reports with budget versus actual financial activity to cost center managers. Other transaction and open commitment reports are produced periodically to further assist cost center staff to manage operations. MnSCU accounting allows cost center balances to exceed budgeted amounts. However, the college accounting supervisor monitors cost centers with negative balances and works with appropriate managers to resolve potential deficit balances. The business office reminded cost center managers to closely monitor expense budgets.

### **Audit Objectives and Methodology**

Our review of St. Paul Technical College's overall financial management focused on the following questions:

- Did the institution design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

## St. Paul Technical College

- Did the institution design and implement internal controls to provide reasonable assurance that monies in the local bank account were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did the institution 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 interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent it was utilized for each of the individual program areas discussed in the following chapters. To the extent possible, we reviewed transactions posted to MnSCU accounting to determine if St. Paul Technical College properly recorded revenue and expenditures for both state treasury activities and local accounts. We obtained MnSCU accounting budget reports revealing budget versus actual balances for each cost center. We inquired about management controls in place to compare MnSCU accounting to MAPS financial activity and SCUPPS to SEMA4 comparisons. We also interviewed college personnel and reviewed system security reports to determine that the college limited access to its computerized business systems. Finally, we reviewed local bank account reconciliations to the accounting system and determined college compliance with material finance-related legal provisions.

## Conclusions

St. Paul Technical College did not design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems. The college had inexperienced accounting staff which were required to learn and implement new MnSCU business systems. We noted several internal control weaknesses over tuition and fees, personnel and payroll, materials and service expenditures, and equipment, as discussed in the individual chapters of this report. In addition, as noted in Finding 1, the college did not complete timely reconciliations of MnSCU accounting to MAPS. This does not allow for timely detection and correction of errors and irregularities. We also noted in Finding 2 that security controls to access the accounting and payroll systems require improvement.

St. Paul Technical College designed and implemented internal controls to provide reasonable assurance that local bank account balances were accurately recorded and reconciled with MnSCU accounting balances, adequately safeguarded, and properly collateralized.

St. Paul Technical College designed and implemented budgetary controls to provide reasonable assurance that it operated within available resources and management authorization, and it properly monitored revenue and expenses against expected levels.

- 1. St. Paul Technical College did not verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in MAPS.**

The college did not reconcile its financial activities recorded on its business systems timely to ensure that its transactions were posted correctly. The college only reconciled the MnSCU and

## St. Paul Technical College

MAPS accounting systems once for fiscal year 1996 in September 1996. The college did not reconcile these systems for fiscal year 1997 until April 1997.

This reconciliation provides a process for detecting transactions that are not recorded consistently on the two systems. Without this reconciliation, the college increases its risk of incomplete or inaccurate financial information.

### *Recommendation*

- *St. Paul Technical College should reconcile MnSCU accounting to MAPS cash, revenue, and expenditure activity on a periodic basis to ensure the accuracy of its accounting records. The college should identify, resolve, and adjust differences to avoid incomplete or inaccurate information.*

## **2. St. Paul Technical College security controls to access MnSCU accounting and SCUPPS personnel/payroll systems were weak.**

St. Paul Technical College did not adequately administer and control access to its computerized MnSCU accounting and SCUPPS personnel/payroll systems. A business office supervisor acted as the college security administrator and worked with regional data center staff to administer access privileges for college employees. The college has primary authority and responsibility to ensure employee access is necessary based on job responsibilities. Several weaknesses were noted in the security administration of the college business systems.

- User IDs for six former and two transferred employees have not been canceled. The college did not establish a process to remove employee access to its financial systems after an employee resigned or transferred.
- We noted that at least ten MnSCU accounting and SCUPPS users have been assigned incompatible security profiles resulting in weakened separation of duties. For example, the college had not separated purchasing and disbursing functional profiles. Similarly, human resource and payroll functions were not separated. These staff have the capability to update transactions for a function incompatible with their job responsibilities.
- The college security administrator did not periodically review system user security reports identifying employee access to MnSCU accounting and SCUPPS. The security report revealed that former employees and some system office staff had the capability to update St. Paul Technical College records. These staff no longer have job responsibilities to update system transactions for the college. It is critical for the college to monitor security access to its computerized business systems, especially during periods of changing system requirements and staff responsibilities.

### *Recommendation*

- *St. Paul Technical College should improve security access controls by:*
  - *canceling user IDs for terminated employees;*
  - *restricting access to its business systems based on job responsibilities; and*
  - *periodically reviewing system user security reports.*

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## Chapter 3. Tuition, Fees, and Other Revenue

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### *Chapter Conclusions*

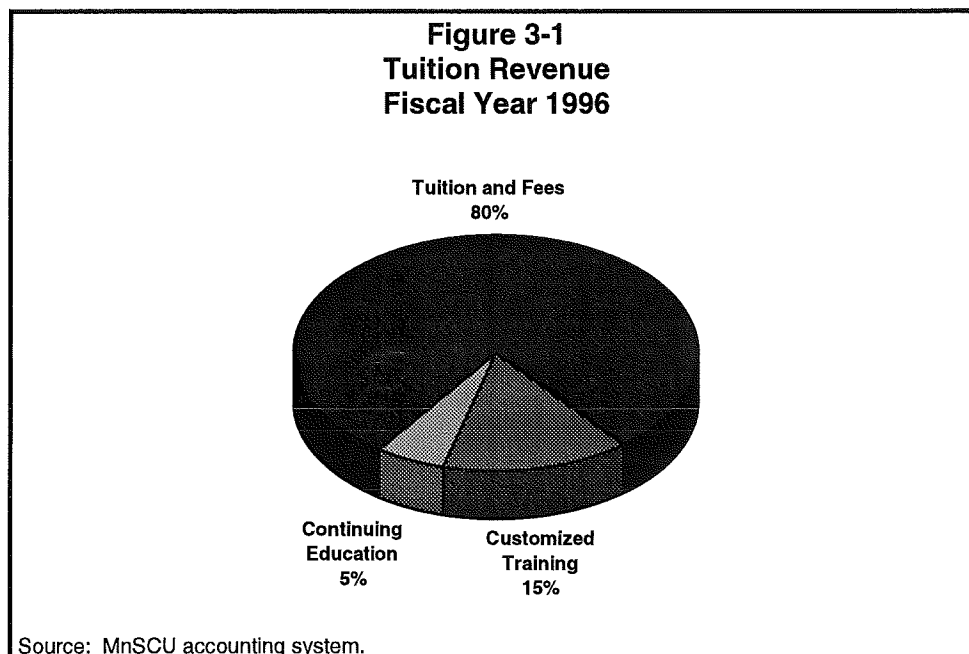
*St. Paul Technical College designed and implemented controls to collect, safeguard, and deposit tuition, fees, and other revenue. However, the college did not develop controls to assure the completeness of tuition and fee revenue recorded in the MSIS and MnSCU accounting systems. Also, several staff had incompatible and unnecessary access to post tuition payments in the student registration and receivable system (MSIS). Finally, we had concerns with the college's accounting for continuing education and customized training receipts.*

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St. Paul Technical College collected tuition and fees each quarter from students enrolled in campus programs and continuing education classes. The college used the Minnesota Multi-Campus Student Information System (MSIS) to register, bill, and collect tuition for all classes. For fiscal year 1996, the resident tuition rate was \$40 per credit plus miscellaneous fees resulting in over \$5 million in revenue.

The college also offered customized training classes. The Center for Training and Assessment (center) is a division of St. Paul Technical College and provided classes tailored to the specific needs of a business. The center also provided assessments for companies wishing to make their organization more efficient and effective. A separate enrollment registration system is used to bill and collect tuition for customized training courses. During August 1996, the center moved to a separate building owned by the college. The center collected revenues of \$776,587 for fiscal year 1996.

Tuition, fees, customized training, and continuing education revenue totaled \$6 million during fiscal year 1996. Figure 3-1 shows the various components:



## **St. Paul Technical College**

The college provided accounting services for the Minnesota Satellite and Technology (MnSAT). MnSAT is located at the World Trade Center and provided satellite, broadcast, video, and audio services to other agencies and businesses. Beginning in fiscal year 1997, the college deposited MnSAT user fees into the General Fund which was previously accounted for as an enterprise fund activity. MnSAT also used the college's procurement and expense processes.

The college also collected miscellaneous revenue in its cosmetology, culinary arts, auto body repair, and auto mechanics programs. These programs generated over \$100,000 of additional revenues while training their students.

### **Audit Objectives and Methodology**

We focused our review of tuition, fees, and other revenue on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that tuition, fees, and miscellaneous revenues are collected, adequately safeguarded, comply with applicable legal compliance provisions, and were properly recorded in the MnSCU accounting records?
- Did the college properly deposit and record tuition revenue in the state treasury?

To meet these objectives, we interviewed business office, registration office, and various program supervisors to gain an understanding of the internal controls over the billing, collecting, and recording of tuition, fees, and other revenue. We determined the reasonableness of tuition revenue recorded on the MnSCU accounting system in relation to the recorded credits on MSIS. We reviewed the tuition and fees collected by the customized training department, continuing education, and other departments. We also tested transactions to determine the timeliness of deposits and recording of revenue on the statewide accounting system (MAPS).

### **Conclusions**

We found that St. Paul Technical College designed and implemented controls to collect, safeguard, and deposit tuition, fees, and other revenue. However, we found control weaknesses in assuring the completeness of tuition and fee revenue recorded in MSIS and MnSCU accounting systems. In Finding 3 we noted that staff did not compare tuition receipts to student tuition payments in the registration system. In addition, several staff had incompatible and unnecessary access, as described in Finding 4, to update the student registration and receivable system (MSIS).

We found other weaknesses in accounting for continuing education and customized training receipts. In Finding 5, the college registrar's office inappropriately received and held continuing education receipts. Customized training and continuing education receipts were not promptly deposited as noted in Finding 6. Finally, the college did not separate the accounting for the Center for Training and Assessment state appropriation and customized training activities. The center is also not charged for certain overhead costs which is not recovered in customized training course fees. These issues are discussed in Finding 7.



## St. Paul Technical College

### **3. PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College did not ensure the completeness of tuition receipts.**

St. Paul Technical College did not perform key reconciliations to ensure that billable credits and tuition recorded in the student registration and receivable system (MSIS) agreed with reported tuition collections. The college used MSIS to register and bill students for credit and continuing education classes. Student tuition payments are posted to student accounts in MSIS. The Center of Training and Assessment used its own registration system to register and collect tuition for customized training classes. Neither the college nor the center performed the necessary comparison of the registration systems to tuition receipts to ensure the completeness of collections.

The college did not compare MSIS billable credits and student tuition payments to MnSCU accounting tuition collections. Without a comparison, the college faced an increased risk that tuition could be posted as paid without money being deposited. The reconciliation is a critical control since several college staff, as noted in Finding 4, have inappropriate access to update student tuition payments in MSIS. We compared systems and noted fiscal year 1996 tuition collections were \$185,600 lower than MSIS student tuition payments. The variances could be caused by tuition waivers or outstanding tuition charges to external organizations. The college needs to investigate the propriety and reasonableness of variances between the MSIS and MnSCU accounting systems to assure the completeness of tuition collections.

Similarly, the Center for Training and Assessment did not reconcile its registration system to the tuition collected and recorded on the MnSCU accounting system. The lack of an independent reconciliation process increases the risk that errors or irregularities will occur and go undetected.

#### *Recommendation*

- *St. Paul Technical College should conduct independent reconciliations of its student registration and receivable systems to MnSCU accounting to ensure that tuition is accurate and complete.*

### **4. College employees have incompatible access to update MSIS.**

The college did not effectively control access to the Minnesota Multi-Campus Student Information System (MSIS). An excessive number of staff had clearance to initiate MSIS transactions even though it was not part of their job responsibilities. In addition, the college registrar was assigned security administration. However, the registrar was a key user of MSIS. These security weaknesses increase the risk of errors or irregularities going undetected.

We found that 21 college employees had incompatible access to add, delete, and change payments to students' accounts on MSIS. Only the tuition office needs the ability to add, delete, and change tuition payments. However, staff from the registrar's office can also update MSIS payments. The registrar's office needed access to MSIS to add late registration fees to a student's account and the system was apparently unable to restrict access to only that need. Once access

## St. Paul Technical College

was granted to make changes to a student's account, the user had the ability to change all aspects, including student payments. The registrar's office should only be able to initiate general information and register students and post grades. Limiting access to MSIS for only those employees who need it to perform their duties is critical in establishing strong internal controls.

We also found that the college registrar shared responsibility with the database administrator in modifying user access privileges to MSIS. The risk of errors or irregularities increases when the college grants access to both the assets and recordkeeping to the same employee. Effective internal controls require a person independent of data processing to be responsible for access control for the end users. Only the data base administrator, or another security administer, should have the responsibility of modifying or changing access privileges.

### *Recommendations*

- *St. Paul Technical College should review MSIS access privileges assigned to its employees. The ability to update MSIS payments should be based on job responsibilities.*
- *The college should assign an employee independent of the registration and tuition process to control access privileges on MSIS.*

## **5. St. Paul Technical College did not have adequate separation of duties over continuing education receipts.**

The registrar's office inappropriately handled tuition receipts for hourly based and continuing education courses. Staff responsible for registration should not be involved in tuition collections. This combination of duties places incompatible billing and collection responsibilities with the same employee. The college should separate the responsibility for registration and tuition collection. This separation increases the assurance that registrations are collected and deposited. Continuing education collected \$321,000 in receipts during fiscal year 1996.

### *Recommendation*

- *The college should separate registration and tuition collection responsibilities for continuing education receipts.*

## **6. The college did not promptly deposit tuition receipts from continuing education and customized training courses.**

St. Paul Technical College did not deposit continuing education and customized training tuition receipts daily. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily if they total \$250 or more. Neither location has a safe or secured areas to ensure that these monies are adequately safeguarded until deposit. Both the registrar and customized training offices waited to deposit course tuition until the classes started. We were told that if a class was canceled, the

## St. Paul Technical College

offices would return the check to the student rather than issuing a refund through the business office.

The registrar's office bills and collects tuition receipts for continuing education classes. The registrar's office held over \$38,000 in checks for up to two weeks prior to the start of the quarter before sending the money to the tuition office for deposit. Staff indicated that cash collections were forwarded to the tuition office for deposit. The Center for Training and Assessment billed and collected customized training tuition. The center accumulated receipts up to two weeks before it sent funds to the tuition office for deposit. During fiscal year 1996, the center collected \$776,586 in receipts. Untimely deposits increase the risk of lost or stolen receipts, as well as the possibility of checks being returned for nonsufficient funds.

### *Recommendation*

- *St. Paul Technical College should promptly deposit customized training and continuing education tuition into the state treasury. Refunds to students should be issued using the college's imprest cash fund.*

## **7. The college did not separate financial activities nor charge certain costs to the Center for Training and Assessment.**

We noted the following two concerns with the accounting for the Center for Training and Assessment financial activities:

- The college did not separate its costs between the network and customized training activities for the Center for Training and Assessment.
- The college did not charge the center for certain overhead costs, such as rent, utilities, and other indirect costs, which could be recovered in course fees.

The MnSCU system office and the college cannot make effective decisions without sufficient financial information for these activities.

The college did not distinguish its costs between the network appropriation and customized training activities. MnSCU allocated \$583,380 of its state appropriations to the college to fund the Customized Training Network in fiscal year 1996. The network appropriation was intended to finance costs associated with identifying, recruiting, and serving targeted customer groups. However, the college commingled the costs of developing the network with the regular customized training program. The MnSCU system office will base future appropriation allocations on the financial performance of the college's customized training program. Since the college did not distinguish costs between the network appropriation and customized training program courses, the accounting system balances could not be used to assess performance.

Also, the college could not assess the reasonableness of customized training course fees due to insufficient cost information. Assessing the fees is further complicated because the college did not charge all overhead costs, such as rent, utilities, and other indirect charges to the center. For example, the college did not allocate a portion of over \$11,000 in electricity and gas. The customized training program based its course fees on the operating costs for each course, but excluded any recovery of

## St. Paul Technical College

estimated overhead costs. The college should at least estimate overhead costs associated with the customized training program and consider whether it wishes to recover those costs in its course fees.

### *Recommendations*

- *The college should work with the system office so it may distinguish its direct costs between its state appropriation and customized training course activities related to the Center for Training and Assessment.*
- *The college should consider the implication of indirect costs and overhead in its pricing policy.*

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## Chapter 4. Payroll Expenditures

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### *Chapter Conclusions*

*The college inherited a unique and complicated employment contract from the St. Paul schools that created a need for it to develop extensive local procedures and controls. The college did not, however, develop adequate internal controls over the personnel/payroll function. As a result, the college had to make payroll adjustments and correcting entries.*

*For the items we tested, after accounting for the numerous adjustments processed to correct payroll transactions, the college correctly compensated employees based on hours worked, faculty appointments, and applicable legal provisions of the bargaining unit contracts. In fiscal year 1997, the college improved on posting fiscal year 1997 payroll expenditures more timely and accurately.*

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Employee payroll represents the largest expenditure for St. Paul Technical College. The college spent \$14 million, or 60 percent, of its total fiscal year 1996 expenditures on payroll costs. As of December 31, 1996, the college had 423 staff on the payroll: 166 classified and unclassified employees, 110 full-time faculty, and 147 adjunct faculty. College employees are covered by the following compensation plans: Minnesota State Employees AFSCME Union, Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Managerial Plan, and Personnel Plan for Excluded Managers. College full-time and adjunct faculty are governed by United Technical College Educators (UTCE).

MnSCU and UTCE did not reach a final contract settlement, effective July 1, 1995, until May 19, 1997. St. Paul Technical College continued to operate and provide faculty compensation based on the former St. Paul Public School District No. 625 contract. This contract remained in effect until MnSCU reached its contract settlement with UTCE. Faculty salaries paid at school district contract levels will now be adjusted to the final wages negotiated with UTCE, retroactive to July 1995.

During fiscal year 1996, the college used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate and deduction information to determine the amount that an employee was paid. The system office input payroll transactions from July 1995 through May 1996 when St. Paul Technical College began to input its own payroll transactions. Employee leave balances are maintained by the campus. The college converted to the state's new SEMA4 payroll system in October 1996.

## **St. Paul Technical College**

St. Paul Technical College continued to compensate faculty under the terms of its prior school district contract. As a result, the college could not utilize the full capability and features of the State Colleges and Universities Personnel/Payroll System (SCUPPS). Contract lane and step, which was used to determine faculty base salary, was not tracked in SCUPPS. Assignment types were not specified for noninstructional appointments. Supplemental pay for longevity stipends and seventh-hour compensation were manually determined and combined with base salary in SCUPPS. The manual determination and unique school district contract provisions caused faculty compensation to be cumbersome and many times inaccurate. The college issued several payroll advances from imprest cash when employees did not receive a paycheck or were substantially underpaid. The college business office has recovered all but two payroll advances totaling \$787.

The college employed a large number of adjunct or part-time faculty to help meet changing enrollment and program offerings. Adjunct faculty are appointed for a set number of hours and required to turn in timesheets to support the hours worked.

Minnesota Laws of 1994, Chapter 532, Article 5, authorized the transfer of technical college employees on July 1, 1995. The law specified that staff employed by the technical colleges on July 1, 1995, should be transferred into state service without loss of pay or position. The law also transferred employment dates, leave balances, years of service, and benefits for each employee.

## **Audit Objectives and Methodology**

The specific objectives of our review of payroll expenditures 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 interviewed college employees to obtain a general understanding of the internal control structure over the personnel and payroll process. We tested a sample of payroll transactions to determine the accuracy of hours worked and employee compensation being paid. Employee annual payroll transactions were summarized, reviewed, and compared to SCUPPS appointments. We reviewed and tested employee leave balances maintained by the college. We also tested payroll advances from the college's imprest cash fund to ensure recovery of those advances.

## **Conclusions**

We found that St. Paul Technical College did not properly establish controls over the payroll/personnel function to accurately record payroll expenditures. Several adjustments were needed to accurately pay employees and to correct recorded payroll expenditures. The college lacked authorization of biweekly payroll transactions and control reports were not produced to identify payroll funding and cost center posting errors. These issues are discussed in Findings 8

## St. Paul Technical College

and 9. The college did not post payroll expenditures timely to MnSCU accounting for fiscal year 1996 and was still making adjustments from January to April 1997. The college began posting fiscal year 1997 payroll expenditures more timely and accurately. However, the college is still encountering adjunct appointment and time reporting errors.

For items tested, and considering numerous adjustments processed to correct payroll transactions, the college has compensated employees based on hours worked, faculty appointments, and applicable legal provisions of their bargaining unit contracts. For items tested, the college also maintained accurate records supporting leave earned and taken.

### **8. St. Paul Technical College had an excessive number of human resource and payroll errors.**

The college overpaid and underpaid many employees since it began using the new payroll system. The college eventually corrected the appointment and compensation errors several months later. Many problems resulted from the academic department administrators providing inaccurate appointment details to the human resource office. The college had to make many payroll adjustments to correct the erroneous payroll checks and postings to its business systems. The payroll and human resource office staff spent a significant amount of time researching and reviewing incorrect SCUPPS appointments and payroll transactions. The volume of errors was so significant that staff could not identify and resolve errors each payperiod. College staff allowed errors to accumulate over several payperiods causing the need for larger adjustments when ultimately corrected.

College deans and administrators provided the initial appointments to the human resource office. Subsequently, the administrators approved employee timesheets for adjunct and summer faculty hours worked. Some of the problems we noted include:

- faculty appointments were improperly or inaccurately initiated;
- appointments contained incorrect or invalid cost centers;
- incorrect rates were used for seventh hour compensation;
- initial lane, step, or full-time placement from the school district were incorrect; and
- adjunct faculty timesheet hours were turned in late, were outside the appointment period, or exceeded the established appointment hours.

The college must emphasize the need for accurate appointment and payroll information from its college deans and administrators. Although the college human resource and payroll staff worked with these administrators to correct the numerous appointment and payroll errors, problems still persist. The college must decrease the volume of errors to allow human resource and payroll staff to operate more efficiently.

#### *Recommendation*

- *St. Paul Technical College management should take steps to minimize the SCUPPS appointment and employee time reporting errors. Academic department administrators must accurately report SCUPPS appointments to the human resource office and employee hours worked to the payroll office.*

## St. Paul Technical College

### 9. St. Paul Technical College did not produce key control reports and make corrections timely.

The college does not produce critical SCUPPS control reports timely. This allowed errors to accumulate for several payperiods before corrections were made, as explained in Finding 8. Two primary reports were not frequently produced and the necessary corrections promptly initiated. First, the SCUPPS Account Summary report identified payroll charges that could not post to a cost center. These payroll charges accumulated in a default cost center account until corrected. Second, the SEMA4 to SCUPPS Audit report identified any differences between SCUPPS appointments and amounts being paid from SEMA4. This report also identified any over or underfunding of projected payroll costs for each employee. The human resources and payroll offices work with college administrators to correct payroll errors or funding problems.

During fiscal year 1996, college employees were charged to General Fund accounts until appointments and other fund activities had been established. The college produced significant adjustments to transfer payroll charges to the correct cost centers and funds. We noted that the college was still correcting over \$740,000 in payroll expenditures, pertinent to fiscal year 1996, in MnSCU accounting between January 1, 1997, and April 30, 1997. Producing the SCUPPS control reports and resolving the necessary exceptions in a timely fashion will improve reporting of payroll expenditures in the accounting system. For fiscal year 1997, the college improved the allocation and posting of payroll costs to the various funds. However, the college still does not produce SCUPPS control reports and fails to resolve exceptions timely.

#### *Recommendations*

- *St. Paul Technical College should produce system control reports more frequently and resolve incorrect personnel/payroll transactions and posting errors.*
- *St. Paul Technical College should designate an independent employee to verify the accuracy of biweekly payroll transactions.*



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## Chapter 5. Materials, Purchased Services, and Equipment

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### *Chapter Conclusions*

*St. Paul Technical College did not implement internal controls to provide reasonable control over procurement, authorization of purchases, and accuracy of vendor payments. We found that college faculty and staff did not follow established procurement and authorization processes, did not consistently acknowledge receipt of goods or services, and did not thoroughly verify the accuracy of vendor invoices. In addition, the college did not have an effective system to control its property and equipment.*

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St. Paul Technical College faculty and staff purchase materials, supplies, services, and equipment to facilitate its educational mission. Fiscal Year 1996 expenditures for materials, equipment, and purchased services can be seen in Table 5-1.

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**Table 5-1**  
**Fiscal Year 1996 Activity**

Materials and Supplies	\$1,981,994
Equipment	\$1,072,535
Purchased Services	<u>\$ 762,000</u>
Total	<u>\$3,816,529</u>

Source: MnSCU Accounting System.

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College staff initiate purchases through the college purchasing agency or use field purchase orders. Purchases greater than \$1,500 require staff to complete a requisition form used to encumber funds. The college's purchasing agent bids the purchase and completes the purchase order to place the order with a vendor. Equipment purchases require the additional approval of the appropriate college dean, vice president, or president. Smaller purchases are made directly using field purchase orders without going through this procurement process. College policies do not allow items such as equipment, software, professional services, or staff development to be purchased using a field purchase order. Until December 1, 1996, college policies restricted use of field purchase orders to goods and services under \$500. Subsequently, the college increased this amount to \$1,500.

During the audit period, St. Paul Technical College implemented a process to identify and tag new equipment with a state of Minnesota identification sticker. MnSCU policy requires colleges to develop a procedure for recording fixed assets over \$2,000. St. Paul Technical College failed to tag equipment over \$2,000 until approximately a year after the college merged into MnSCU. Equipment purchases exceeded \$1 million for fiscal year 1996. In addition, our report on Minnesota State Colleges and Universities System, Transition of Technical Colleges into State

## **St. Paul Technical College**

Government (Report No. 96-35), identified that the reported value and accuracy of the property and equipment transferred to MnSCU after the merger was inaccurate.

### **Audit Objectives and Methodology**

The primary objectives of our audit were as follows:

- Did the college design and implement internal controls over materials, purchased services and equipment to provide reasonable assurance of competitive and authorized procurement, receipt of goods or services, and accuracy of vendor payments?
- Did the college design and implement internal controls to provide reasonable assurance that college property and equipment assets are adequately safeguarded, recorded and controlled?

To address these objectives, we interviewed business office and other college personnel. We reviewed controls and tested transactions related to acquisition of materials, supplies, services, and equipment. We determined whether the college properly procured and documented disbursement transactions, paid the correct amount, recorded transactions in MnSCU's accounting system, and complied with applicable MnSCU policies.

### **Conclusions**

St. Paul Technical College had inadequate controls to ensure competitive procurement and authorization of purchases. In addition, the college did not have proper controls to ensure that purchases were received and compared to the vendor invoices before payments were made. These issues are discussed in Findings 10 to 12. In addition, the college did not have an effective system to account for its property and equipment as discussed in Finding 13.

#### **10. St. Paul Technical College did not competitively bid some items and did not encumber certain funds.**

St. Paul Technical College did not obtain competitive bids for some purchases that exceeded limits established by MnSCU and the college's own policy. MnSCU Policy 5.5.2, Purchasing, requires purchases exceeding \$10,000 to be competitively bid. The college did not competitively bid a purchase of a test scanner and scoring sheets for \$16,555. The item was not purchased by the college's purchasing agent; rather, the Center for Training and Assessment ordered the items directly. In addition, this purchase was not encumbered prior to the receiving and incurring the financial obligation. Furthermore, the college's policy is to obtain bids for purchases exceeding \$1,500; however, we noted that the college did not competitively bid the purchase of grant writing services for \$3,372. Without receiving competitive bids, the college is not assured of a fair and reasonable price. We also noted that the college did not retain the management approval to incur this purchased service.

The college also did not encumber funds prior to incurring several obligations. This problem primarily occurred when college staff did not purchase items through the college's purchasing

## St. Paul Technical College

agent. For example, computers and equipment totaling \$56,161 were directly ordered by a college dean. The required requisition form and purchase order were completed nearly a month after the purchase was actually made. Similarly, a copier was purchased for \$43,000 by a college vice-president with the requisition form and purchase order completed over two months later. The college increases the risk of cost centers exceeding their budget by incurring obligations prior to encumbering funds. In addition, without recording significant obligations the college has no assurance that funds will remain available to pay for the obligations.

### *Recommendations*

- *St. Paul Technical College should obtain competitive bids for purchases exceeding the college's policy.*
- *St. Paul Technical College should ensure funds are available and encumbered prior to incurring obligations on large expenditures.*

### **11. The college did not receive the appropriate approvals for certain purchases.**

St. Paul Technical College faculty and staff purchased computers and equipment without the appropriate management approval. Cost center administrative staff use field purchase orders to purchase items over the established \$500 level. However, staff do not always authorize field purchases.

We noted the following concerns with inappropriate purchase authorizations:

- Three equipment purchases totaling \$134,276 lacked the appropriate management approvals. College policies required the president or vice president's approval for equipment purchases. Computer equipment requires an additional signature from the college's Information Services staff. We found two computer purchases, exceeding \$50,000 each, which did not show approval of Information Services.
- Cost center staff inappropriately purchased items over \$500 using field purchase orders. Seven purchases totaling \$5,969 exceeded \$500 each, the largest being a \$1,415 purchase of books. These purchases should have been made by the college purchasing agent. The college subsequently increased the field purchase order limit to \$1,500. We also noted that cost center staff did not approve field purchase orders when subordinates made purchases. Using field purchase orders increases risk since funds are not encumbered prior to the purchase of the item.

Without adhering to the established procurement process, unauthorized purchases occur and management is left unaware of the items acquired.

### *Recommendation*

- *St. Paul Technical College staff should only initiate purchases of goods or services within established levels and with the appropriate management approvals.*

## St. Paul Technical College

### 12. St. Paul Technical College did not verify the accuracy of certain invoices.

St. Paul Technical College paid several vendors when the invoices did not correspond to the applicable purchase order. In addition, the college paid several invoices without obtaining evidence the items had been received. For example, we noted the following:

- Eleven vendor purchases, totaling \$143,398, were not supported by packing slips or any form of receiving evidence.
- The college purchased 25 computers for \$1,741 each plus various upgrades and installation totaling \$870 per unit. The computers should have cost \$2,611 per unit but the college paid the vendor for 25 different computers at a total unit cost of \$2,667. This may have resulted in a possible \$1,400 overcharge. The vendor also invoiced \$40 for shipping costs; however, these charges were not included on the purchase order and the vendor contract states shipping is included in the unit cost. Staff failed to resolve the invoice price differences.
- The college did not verify the accuracy of invoices received from Inver Hills Community College, relating to an agreement between the two colleges. The agreement allowed St. Paul students to take certain classes at Inver Hills. Students paid tuition to St. Paul Technical College, which reimbursed Inver Hills Community College for its tuition and other costs. The college paid \$162,228 to Inver Hills Community College during fiscal year 1996, but had to recover \$64,280 in overpayments. St. Paul Technical College verified students listed on the invoice had registered for class; however, the college did not verify accuracy of amount requested.

The business office failed to investigate these discrepancies and paid the invoices in full. Faculty and college staff should have been required to follow-up and resolve the vendor invoice differences. Without verifying the accuracy of invoices, the college increases its risk of overpayment or paying for goods and services which it never received.

#### *Recommendations*

- *St. Paul Technical College faculty and staff should provide packing slips or prepare receiving evidence supporting goods acquired.*
- *St. Paul Technical College business office should not pay invoices, with quantity and price differences, until faculty and staff resolve invoice and purchase order discrepancies. The college should investigate the purchases mentioned above and seek recovery of any vendor overpayment.*
- *St. Paul Technical College should verify the accuracy of the invoices submitted by Inver Hills Community College.*

## St. Paul Technical College

### 13. PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College did not effectively complete its inventory of property and equipment assets.

St. Paul Technical College failed to identify, tag, and record equipment transferred to MnSCU upon the July 1, 1995 merger. In addition, the college has not performed any periodic physical verification or count of equipment existence. The college made approximately \$1 million of equipment purchases during fiscal year 1996. Tagging equipment with a state of Minnesota identification sticker and conducting periodic inventory is essential to identify missing assets.

Fiscal Year 1996 equipment purchases were not immediately identified and tagged. The college failed to identify equipment meeting this criteria until one year after the college merged into MnSCU. MnSCU System Procedure 5.5.2, Part 11, Fixed Assets, dated June 1996, required the college to develop procedures for recording fixed assets over \$2,000. The college then identified prior equipment purchases which exceeded \$2,000, tagged the equipment and logged them onto its fixed asset database. Subsequently, the college also desired to tag and record equipment greater than \$500 which was sensitive and susceptible to theft. Fiscal year 1997 purchases were being tagged and recorded at the time the equipment was received. However, we noted the college purchased milling machines, which cost \$79,674, that were not recorded on the college's fixed asset records.

The college did not identify and tag equipment transferred when the college merged into MnSCU. Our report on Minnesota Colleges and Universities System, Transition of Technical Colleges into State Government (Report No. 96-35), reported that the value and accuracy of the inventory transferred to MnSCU after the merger was inaccurate. The inventory listing included items which were not found and did not include other items which should have been. We recommended the college should complete a physical inventory to identify and record transferred assets. As of May 23, 1997, the college has not completed an inventory to compile a complete record of assets transferred.

#### *Recommendation*

- *The college should improve controls over equipment purchases by:*
  - *identifying and recording property and equipment transferred in when the college merged with MnSCU; and*
  - *conducting periodic physical inventory counts to ensure asset exists and is not missing and stolen.*

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## Chapter 6. Student Financial Aid and Federal Revenue

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### *Chapter Conclusions*

*St. Paul Technical College designed and implemented internal controls to provide reasonable assurance that it was managing state and federal student financial aid programs in compliance with general and specific program requirements. We reviewed college controls over the packaging, awarding, and disbursing of student financial aid as of December 1996. We also reviewed the cash management and reporting process for the federal financial aid programs. We found that financial aid activities were properly recorded in the MnSCU accounting system.*

*The college designed and implemented reasonable internal controls to ensure federal Deaf Program funds were requested timely and based on actual program expenditures.*

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### Student Financial Aid

St. Paul Technical College participated in several federal student financial aid programs which were administered by the U.S. Department of Education. The revenue from these financial aid programs are shown in table 6-1.

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**Table 6-1**  
**Federal Student Financial Aid Program Revenue**  
**Fiscal Year Ended June 30, 1996**

<u>CFDA Number</u>	<u>Program</u>	<u>Total</u>
84.007	Federal Supplemental Education Opportunity Grant (SEOG)	\$ 121,235
84.032	Federal Family Education Loan (FFEL)	689,979
84.033	Federal College Work Study (FWS)	40,907
84.063	Federal Pell Grants	2,078,262

Note: Federal Family Education Loan (FFEL) funds are provided by private lenders and delivered to students. The college does not receipt and disburse FFEL loan funds.

Source: Minnesota Financial and Compliance Report on Federally Assisted Programs-Statement of Expenditures and respective footnotes #3 and #4 for the Year Ended June 30, 1996.

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St. Paul Technical College used an automated financial aid system called SARA to package financial aid. The system packaged PELL, SEOG, and Minnesota State grants based upon parameters set in the system. Access to SARA is restricted to staff in the financial aid office with user IDs and passwords. The college separately packaged college work study and FFEL

## **St. Paul Technical College**

loans. The college interfaced award detail into MSIS (Minnesota Multi-Campus Student Information System). The college adjusts awards based upon a student's actual enrollment status after the school's drop/add period. The college's tuition office applies student financial aid against tuition and fees in MSIS and generates a check to the student for any excess balance.

We reviewed the Federal Pell Grant and Federal Family Education Loan Programs which are considered major federal programs. We also reviewed the Minnesota State Grant program at the college. The following discussion provides information about the state and federal financial aid programs included in our review.

- The federal Pell grant is generally the first source of financial assistance to an eligible student. Pell grant funding is not limited to available funds at the college, all eligible students receive funding as long as they register and attend twelve credits each quarter. The maximum Pell grant for the 1996-1997 award year was \$2,470.
- Under the Federal Family Education Loan (FFEL) Program, private lenders provide the loan principal, and the federal government guarantees the loan in the event of default or cancellation. For subsidized Stafford loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For unsubsidized Stafford loans, the student pays all interest that accrues on the loan. St. Paul Technical College had a large default rate in fiscal year 1994 and instituted a default reduction plan during the 1996-1997 school year.
- The college participated in the Minnesota State Grant program, which is funded by the Minnesota Higher Education Services Office. St. Paul Technical College packaged Minnesota State Grants along with federal financial aid. The college determined eligibility and disbursed grant funds to the students. Eligible students must register and attend fifteen credits to receive their full grant award. Minnesota State Grant funding in fiscal year 1996 totaled \$581,925.

## **Federal DEAF Program**

St. Paul Technical College serves as a regional center for deaf and hearing impaired individuals. The program is funded through a cooperative agreement with the U.S. Department of Education's Office of Special Education Programs. The college is responsible for providing technical assistance to post secondary institutions in order to make services accessible to deaf students. The federal government determines the amount and length of funding. Federal Deaf Program Funding for fiscal year 1996 totaled \$964,483.



# **St. Paul Technical College**

## **Audit Objectives and Methodology**

The primary objectives of our audit were as follows:

- Did the college design internal controls to provide reasonable assurance that financial aid is properly paid to eligible students and accurately reported in the accounting records?
- Did the college comply with applicable legal requirements over the management of federal cash and accurate reporting of financial aid activity?
- Did the college design reasonable controls to ensure federal program funds are requested timely and based on immediate costs?

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

## **Conclusions**

We found that St. Paul Technical College designed internal controls to provide reasonable assurance that it was managing state and federal student financial aid programs in compliance with general and specific program requirements. We reviewed college controls over the packaging, awarding, and disbursing of student financial aid as of December 1996. In addition, we also reviewed the federal cash management and reporting process for the federal financial aid programs. We found that financial aid activities were properly recorded in the MnSCU accounting system.

The college designed and implemented reasonable internal controls to ensure federal Deaf Program funds were requested timely and based on actual program expenditures.

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## Chapter 7. Enterprise Funds

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### *Chapter Conclusions*

*St. Paul Technical College operates enterprise fund activities for bookstore, food service, and satellite telecommunications services. The college designed internal controls to provide reasonable assurance that revenues and expenses were complete, adequately safeguarded, and accurately recorded in the accounting system. However, the bookstore lacked separation of duties over daily cash and voucher reconciliations.*

*Bookstore, food service, and satellite telecommunications service financial activities are recorded in the MnSCU accounting system. However, we found that the college does not prepare accrual based financial statements to monitor the status of financial activities and pricing. Despite not being allocated all operating costs, the food service incurred an operating loss of \$13,918 for fiscal year 1996. Food service losses continue in fiscal year 1997.*

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St. Paul Technical College operates enterprise fund activities for bookstore, food service, and satellite telecommunications services. The bookstore offers textbooks and a wide range of school and personal supplies for sale. The cafeteria provides food service for college students and staff. Satellite telecommunications services are provided to other state agencies, as well as outside organizations. These enterprise activities should account for operations in a manner similar to private businesses. The accounting system revenue and expense activity for each of these enterprise funds are shown in Table 7-1.

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**Table 7-1**  
**Enterprise Fund Income and Expense**  
**Fiscal Year ending June 30, 1996**

<u>Financial Activity</u>	<u>Bookstore</u>	<u>Food Service</u>	<u>Satellite Service (2)</u>
Operating Revenue	\$ 806,468	\$ 553,497	\$ 257,734
Operating Expenses	<u>788,403</u>	<u>567,415</u>	<u>263,446</u>
Operating Profit(Loss)	<u>\$ 18,065</u>	<u>(\$ 13,918)</u>	<u>(\$ 5,712)</u>

Note: This financial information is incomplete and does not permit accurate net income to be measured. Missing information includes cost of goods sold, rent, utilities, and depreciation.

(2) Financial activities moved to the General Fund in Fiscal Year 1997.

Source: MnSCU Accounting System Trial Balance Report for Fiscal Year 1996 dated May 13, 1997.

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The St. Paul Technical College bookstore sold textbooks, school supplies, and personal items to students and staff. Students paid for books and supplies by cash, check, credit card, or charge

## **St. Paul Technical College**

vouchers. Vouchers are used for students receiving financial aid or funding from external organizations. Charge vouchers are sent to the business office to be applied to the student's account or billed for collection. The bookstore employed two staff. The manager was responsible for determining the necessary inventory of books and supplies while sales are collected by a bookstore cashier. Bookstore staff conducted a physical inventory at the end of fiscal year 1996.

The college food service operated a cafeteria providing meals, snacks, and beverages to students and staff. The food service also catered to other schools and outside businesses. The food service employed two full-time and 13 part-time individuals. Daily receipts are deposited into the college's local bank from which labor and food purchases are paid.

St. Paul Technical College also collected user fees for satellite transmissions and use of cameras, editing equipment, and sound and light equipment provided by Satellite (MnSAT) Telecommunications Services. During fiscal year 1997, the college transferred the satellite telecommunications service activity into the General Fund.

### **Audit Objectives, Scope, and Methodology**

The primary objectives of our audit of enterprise funds were as follows:

- Did the college design and implement internal controls to assure that bookstore, food service, and satellite telecommunications revenues and expenses were appropriate and complete, adequately safeguarded and authorized, and accurately recorded in MnSCU accounting system?
- Did the college have an appropriate process to measure the financial results of bookstore, food service, and satellite telecommunications financial activities?

To achieve this objective, we interviewed college and business office employees to gain an understanding of the controls in place over revenues and expenditures. We performed analytical reviews of financial activities and accounting system balances. We also tested samples of transactions to determine if the college had appropriate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

### **Conclusions**

We found that the college designed internal control procedures to provide reasonable assurance that revenues and expenses were complete, adequately safeguarded, and recorded on the accounting system. However, we found that the bookstore should improve separation of duties over daily cash reconciliation as discussed in Finding 14. We also felt the college should independently verify the completeness of bookstore vouchers.

The college posts receipts and disbursements in the accounting system which provides necessary budgetary controls over the operations. However, not all operating costs are posted into the accounting system. We found that the college did not prepare formal accrual based financial

## **St. Paul Technical College**

statements as a tool to monitor the financial status and price setting. This is discussed in Finding 15.

### **14. The St. Paul Technical College bookstore lacks separation of duties over daily cash collections and bookstore charge vouchers.**

St. Paul Technical College had no independent reconciliation of daily cash collections to the cash register balances for the bookstore. Similarly, the college did not independently verify the completeness of bookstore charge vouchers. Without an assurance that cash collections and charge sales agree to cash register totals, cash shortages can occur and go undetected. Cash shortages could be easily concealed by simply posting a cash sale as a voucher. No staff independent of the operator verified the voucher charges nor reconciled to amounts posted to the student MSIS accounts.

A bookstore employee conducted cash reconciliations for the cash registers located at the college. However, this employee also conducts the cash reconciliation for bookstore's own cash register. This control responsibility must be separated from the individual operating the cash register for adequate internal controls over cash.

Bookstore vouchers represent over half, or approximately \$335,000, of the annual revenue for the bookstore. The business office did not independently verify that it received all vouchers used to purchase books and supplies at the bookstore. The college needs to be assured that voucher charge slips agree with the cash register sales and also reconcile to amounts credited to the student's account on the MSIS student receivable system.

#### *Recommendation*

- *St. Paul Technical College should provide for independent reconciliations of daily bookstore cash collections and charge vouchers.*

### **15. The college did not effectively measure operating results for the bookstore and food service.**

St. Paul Technical College did not prepare financial statements to assess the status of financial activities for its enterprise funds. The college did not accrue operating expenses on MnSCU accounting system to produce a meaningful income statement for the bookstore and food service operations. However, college officials indicated that operating results were monitored on a cash basis. The bookstore and food service are both enterprise funds that should account for operations in a manner similar to private businesses. Fiscal year 1996 revenue and expenses are shown in Table 7-1. This schedule is incomplete, however, because it does not measure cost of goods, rent, utilities, or depreciation.

Accurate income measurement would include matching of revenue and expenses, and allow college management to determine if it needs to adjust prices or pursue cost savings. An accrual based income statement will help determine if the sufficient markup is being applied to the cost of goods sold.

## St. Paul Technical College

MnSCU accounting shows that the college food service incurred a loss of \$13,918 during fiscal year 1996. Actual losses are likely much higher, however, because expenses do not include rent, utilities, or depreciation. The food service losses were subsidized by bookstore profits and available fund balances. The college has been aware of the food service's operating losses and indicated that it established a corrective action plan.

### *Recommendation*

- *St. Paul Technical College should properly accrue revenue and expenses in the MnSCU accounting system to produce meaningful financial statements for the bookstore and food service. The college should review profits, losses, and fund balances annually to determine if price markup is reasonable.*



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**TECHNICAL COLLEGE****235 Marshall Avenue****Saint Paul, Minnesota 55102****Telephone (612) 221-1300**

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August 4, 1997

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building, 658 Cedar Street  
St. Paul, MN 55115

Dear Mr. Nobles:

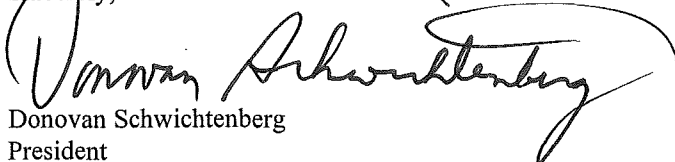
The attached materials represent St. Paul Technical College's formal written response to the recent audit by staff of your office.

We appreciate the fact that all O.L.A. staff were highly professional in conducting their affairs here, cordial in their relations with College personnel, and obviously well trained and knowledgeable in their field.

The second year of the merger has just been completed. The merger has brought about many changes in both policy and procedures and in our case personnel administration of the various policies and procedures. It is our intent to make necessary changes to comply with the audit.

We would also like to make the following point in reference to certain financial control weaknesses described in the recent audit. We believe that, under the governing accounting rules, the objectives of an internal control structure are to provide assurance that assets are "safeguarded against loss from unauthorized use or disposition", and transactions executed, with proper authorizations, "so as to permit the preparation of financial statements, in accordance with generally accepted accounting principles." Our discussions with O.L.A. audit staff, and our review of their formal audit, have not revealed any instance of unauthorized use or disposition of assets entrusted to us, nor does the audit suggest that financial statements were impaired by the specific control weaknesses found. We believe that fact strongly suggests the need for strengthening and improvement of existing MnSCU and SPTC financial controls, not the absence of those controls. We are committed to strengthening and improving these internal controls, in a manner consistent with the audit findings.

Sincerely,

  
Donovan Schwichtenberg  
President

/js

## **AUDIT FINDING #1**

### **AUDIT FINDING:**

St. Paul Technical College did not verify, on a timely basis, that MnSCU accounting agreed with financial activity recorded in MAPS.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree to finding as to timeliness. A 1997 reconciliation was made available at exit conference. We believe MAPS MnSCU reconciliation should be an automated rather than a manual process. Automating the reconciliation process is a current MnSCU system objective. An automated process will still require SPTC report review and correcting actions for certain items.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should reconcile MnSCU accounting to MAPS cash, revenue, and expenditure activity on a periodic basis to ensure the accuracy of its accounting records. The college should identify, resolve, and adjust differences to avoid incomplete or inaccurate information.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendations.

### **SPTC ACTION PLAN:**

SPTC will perform quarterly MAPS/MnSCU reconciliations until such time as MnSCU operating systems can produce automated reconciliations. Automated reconciliations are an existing MnSCU system objective.

### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Bill Nicol (Accounting Supervisor)



## **AUDIT FINDING #2**

### **AUDIT FINDING:**

St. Paul Technical College security controls to access MnSCU accounting and SCUPPS personnel/payroll systems were weak.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with finding.

### **AUDIT RECOMMENDATIONS:**

St. Paul Technical College should improve security access controls by:

- canceling user IDs for terminated employees;
- restricting access to its business systems based on job responsibilities;
- periodically reviewing system user security reports.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with recommendations.

### **SPTC ACTION PLAN:**

We have submitted access deletion documents for all terminated employees. We are in the process of an access review evaluation, using criteria of job responsibilities, for all employees holding access. That review process will be completed by August 15, 1997. Security systems and administration will prepare quarterly summary of all system user security reports, with recommendations as to changes (submitted to Business Manager).

### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Giovanni Massard (Information Systems Supervisor)  
Denis Kelly (Accounting & Payroll Supervisor)  
Craig Anderson (Vice President Customized Training)

**AUDIT FINDING #3**

**AUDIT FINDING:**

PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College did not check the completeness of reported tuition receipts.

**SPTC RESPONSE TO AUDIT FINDING:**

We agree with finding.

**AUDIT RECOMMENDATIONS:**

St. Paul Technical College should conduct independent reconciliations of its student registration and receivable systems to MnSCU accounting to ensure that tuition is accurate and complete.

**SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendation.

**SPTC ACTION PLAN:**

Independent reconciliations performed quarterly effective first quarter 1997-98.

**SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Denis Kelly (Accounting/Payroll Supervisor)  
Katie Yep (Registrar)

#### **AUDIT FINDING #4**

##### **AUDIT FINDING:**

College employees have incompatible access to update MSIS.

##### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with finding.

##### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should review MSIS access privilege assigned to its employees. The ability to update MSIS payments should be based on job responsibilities.
- The college should assign an employee independent of the registration and tuition process to control access privileges on MSIS.

##### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with recommendations, but believe MSIS system modifications are unlikely since it is scheduled to be replaced in the next fiscal year (1999).

##### **SPTC ACTION PLAN:**

We are undergoing suggested access review, with objective of reducing MSIS access privileges to where that access is absolutely required, given the present registration system in order to timely accomplish student registration. Our M.I.S. supervisor has been assigned responsibility to control MSIS access.

Full review of access to be completed by August 15, 1997.

##### **SPTC RESPONSIBLE PERSON(S):**

Giovanni Massard (Information Systems Supervisor)  
Craig Anderson (Vice President Customized Training)

**AUDIT FINDING #5**

**AUDIT FINDING:**

St. Paul Technical College did not have adequate separation of duties over continuing education receipts.

**SPTC RESPONSE TO AUDIT FINDING:**

We agree with audit finding, although audit did not cite any example of impropriety arising from this control weakness.

**AUDIT RECOMMENDATIONS:**

The college should separate registration and tuition collection responsibilities for continuing education receipts.

**SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the need, for financial control purposes, to revise duties in the respective areas. This will require changes in overall SPTC registration process. We would like those changes to not adversely impact on our ability to timely register SPTC/students Fall quarter, 1997.

**SPTC ACTION PLAN:**

Review of registration process, with objective of strengthening financial controls, to include adequate separation of duties over continuing education and customized training receipts. Review completed by August 31, 1997.

**SPTC RESPONSIBLE PERSON(S):**

Katie Yep (Registrar)  
Milo Loken (Vice President Student and Administrative Services)  
Craig Anderson (Vice President Customized Training)  
Peggy Kennedy (Vice President Academic Affairs)

#### **AUDIT FINDING #6**

##### **AUDIT FINDING:**

The college did not promptly deposit tuition receipts from continuing education and customized training courses.

##### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with audit finding, although audit did not reveal any instance of impropriety arising from delayed (check) deposits.

##### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should promptly deposit customized training and continuing education tuition into the state treasury. Refunds to students should be issued using the college's imprest cash fund.

##### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendation as regards daily deposit of checks, as well as cash. Full implementation may require some changes in SPTC's registration processes and duties of registration staff, tuition office staff, and division secretaries. We would like to make control improvements which do not impact adversely on our student registration process and ability to make timely refunds, or produce fee statements.

##### **SPTC ACTION PLAN:**

Review of registration process, to be completed by August 31, with recommended improvements in continuing education receipt process including daily deposit. Review to include consideration of imprest cash for refunds and other possible alternatives.

All described receipts are to be deposited daily.

##### **SPTC RESPONSIBLE PERSON(S):**

Katie Yep (Registrar)  
Milo Loken (Vice President Student and Administrative Services)  
Craig Anderson (Vice President Customized Training)  
Peggy Kennedy (Vice President Academic Affairs)  
Ron Zaudke (Business Manager)

## **AUDIT FINDING #7**

### **AUDIT FINDING:**

The college did not separate the financial activities nor charge certain costs to the Center for Training and Assessment.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the desirability of separation for financial management purposes, but do not believe such separation was required under existing MnSCU accounting guidelines. We believe MnSCU should consider developing system policy guidelines in this area.

### **AUDIT RECOMMENDATIONS:**

- The college should work with the system office so it may distinguish its direct costs between its state appropriation and customized training course activities related to the Center for Training and Assessment.
- The college should consider the implication of direct costs and overhead in its pricing policy.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendations from the standpoint of providing more meaningful financial information at the college and system level.

### **SPTC ACTION PLAN:**

- (1) We will book appropriate indirect costs against the appropriate cost center for 1996-97, and consider these in pricing policy.
- (2) We will formally separate customized training cost activities for related network costs in our budgetary chart of accounts for 1997-98.

### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Craig Anderson (Vice President Customized Training)

## **AUDIT FINDING #8**

### **AUDIT FINDING:**

St. Paul Technical College has an excessive number of human resources and payroll errors.

### **SPTC RESPONSE TO AUDITING FINDING:**

We agree with the finding. However, as the OLA transitional audit (1996) indicated, many of the difficulties experienced related to operation system control environment over which SPTC had no control.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College management should take steps to minimize the SCUPPS appointments and employee time reporting errors. Academic department administrators must accurately report SCUPPS appointments to the human resource office and employee hours worked to the payroll office.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendations.

### **SPTC ACTION PLAN:**

SPTC will provide biweekly mandatory personnel assignment training sessions for department administrators who continue to have difficulties in described areas. Other accountability measures, as appropriate, will be taken.

### **SPTC RESPONSIBLE PERSON(S):**

Lori Brandmire (Human Resources Supervisor)  
Denis Kelly (Accounting/Payroll Supervisor)  
Milo Loken (Vice President Student and Administrative Services)  
All Administrators Making Personnel Appointments

## **AUDIT FINDING #9**

### **AUDIT FINDING:**

St. Paul Technical College does not produce key control reports and make corrections timely.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the finding but believe the essential problem is timely correction of personnel assignments, not the report production.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should produce system control reports more frequently and resolve incorrect personnel/payroll transactions and posting errors.
- St. Paul Technical College should designate an independent employee to verify the accuracy of biweekly payroll transactions.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

- We agree with the recommendation.

### **SPTC ACTION:**

- (1) Same as audit finding #8 (SPTC will provide biweekly mandatory personnel assignment training sessions for department administrators who continue to have difficulties in described areas. Other accountability measures, as appropriate, will be taken.) Accomplishing that recommendation (reducing assignment errors) will greatly simplify correction process.
- (2) Adherence to defined SPTC personnel assignment and payroll reconciliation process, which is already in place.

### **SPTC RESPONSIBLE PERSON(S):**

Lori Brandmire (Human Resources Supervisor)  
Denis Kelly (Accounting/Payroll Supervisor)  
Milo Loken (Vice President Student and Administrative Services)



## **AUDIT FINDING #10**

### **AUDIT FINDING:**

St. Paul Technical College did not competitively bid some items and did not encumber certain funds.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the finding, although reference should be made to state procedural purchasing difficulties in audit period. This is evidenced by legislative action taken to deregulate purchasing during the period.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should obtain competitive bids for purchases exceeding the college's policy.
- St. Paul Technical College should ensure funds are available and encumbered prior to incurring obligations on large expenditures.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendation and the specific need for staff not to engage in direct purchasing activities for which they have no authorization.

### **SPTC ACTION PLAN:**

SPTC is implementing additional training and accountability standards for administrative and other staff not complying with MnSCU and SPTC purchasing policies, and procedures. These will be further defined and implemented by August 31, 1997.

### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Dick Swenson (Buyer)  
All Administrators and Staff Initiating Purchase Transactions.

### **AUDIT FINDING #11**

#### **AUDIT FINDING:**

The college did not receive the appropriate approvals for certain purchases.

#### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the finding, although some of the missing equipment approvals were a financial control implemented by SPTC above required system controls.

#### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College staff should only initiate purchases of goods or services within established levels and with the appropriate management approvals.

#### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the audit recommendations.

#### **SPTC ACTION PLAN:**

SPTC will provide stronger enforcement of the existing state and college purchasing control procedures. The SPTC business office will not process payment for unauthorized purchases, or those made in violation of statute, state or local policy requirements without written explanation from the initiating party, and written authorization of the college president.

#### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)/Business Office Staff  
All Administrators and Staff Initiating Purchase Transactions

## **AUDIT FINDING #12**

### **AUDIT FINDING:**

St. Paul Technical College did not verify the accuracy of certain invoices.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the finding.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College faculty and staff should provide packing slips or prepare receiving evidence supporting goods acquired.
- St. Paul Technical College business office staff should not pay invoices, with quantity and price differences, until faculty and staff resolve invoice and purchase order discrepancies. The college should investigate the purchases mentioned above and seek recovery of any vendor overpayment.
- St. Paul Technical College should verify the accuracy of the invoices submitted by Inver Hills College.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendations.

### **SPTC ACTION PLAN:**

Our plan, effective immediately, is to enforce existing SPTC procedural requirements as to receipt of goods documentation, especially as regards low level (Field Purchase Order) purchasing done in the various departments. Staff in noncompliance will lose direct purchasing rights. Other steps will be taken as necessary.

Investigation and exploration will precede payment of any invoices not in agreement with the purchase order. This has been implemented.

Specific investigation and appropriate action taken of items mentioned in audit will take place by August 31, 1997.

### **SPTC RESPONSIBLE PERSON(S):**

Faculty and Administrators Authorized to Initiate Purchases  
SPTC Business Office Staff  
Ron Zaudke (Business Manager)

### **AUDIT FINDING #13**

#### **AUDIT FINDING:**

PRIOR FINDING PARTIALLY RESOLVED: St. Paul Technical College did not effectively account for its property and equipment assets.

#### **SPTC RESPONSE TO AUDIT FINDING:**

We agree that we had not completed the inventory of all pre-merger assets.

#### **AUDIT RECOMMENDATIONS:**

- The College should improve controls over equipment purchases by:
  - properly identifying and tagging all new equipment purchases over the dollar level established by management; and
  - conducting periodic physical inventory counts to ensure asset exists and is not missing and stolen.
- The college should identify and record property and equipment transferred in when the college merged with MnSCU.

#### **SPTC RESPONSE TO RECOMMENDATIONS:**

SPTC has an effective property and equipment management system, consistent with MnSCU system guidelines which were provided in June of 1996. With the one exception noted in the audit, all equipment purchased since merger are included in our equipment inventory. We agree that we had not completed the voluminous inventory of all pre-merger assets, primarily because of staffing limitations and difficulties in acquiring costing information from the old (Saint Paul Schools) system.

#### **SPTC ACTION PLAN:**

- (1) All equipment items, including pre-merger, to be included in inventory by September 15, 1997.
- (2) An annual physical inventory process involving faculty and departmental deans is to be developed and implemented on an annual basis, beginning 1997-1998.

#### **SPTC RESPONSIBLE PERSON(S):**

Bill Nicol (Accounting Supervisor)  
Ron Zaudke (Business Manager)  
Administrators and Faculty

#### **AUDIT FINDING #14**

##### **AUDIT FINDING:**

The St. Paul Technical College bookstore lacks separation of duties over daily cash collections and bookstore charge vouchers.

##### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with finding and the need to strengthen existing controls in this area. The audit found no example of impropriety arising from this control weakness.

##### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should provide for independent reconciliations of daily bookstore cash collections and charge vouchers.

##### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with recommendation.

##### **SPTC ACTION PLAN:**

We have implemented independent reconciliation of daily cash collections and charge vouchers.

##### **SPTC RESPONSIBLE PERSON(S):**

Rick Caron (Accounting Officer)  
Denis Kelly (Accounting Supervisor)

## **AUDIT FINDING #15**

### **AUDIT FINDING:**

The college did not effectively measure operating results for the bookstore and food service.

### **SPTC RESPONSE TO AUDIT FINDING:**

We agree with the finding, since indirect costs were not charged. However, we believe MnSCU needs to consider developing system policy in this area, to assure consistency among colleges.

### **AUDIT RECOMMENDATIONS:**

- St. Paul Technical College should properly accrue revenue and expenses in the MnSCU accounting system to produce meaningful financial statements for the bookstore and food service. The college should review profits, losses, and fund balances annually to determine if price markup is reasonable.

### **SPTC RESPONSE TO RECOMMENDATIONS:**

We agree with the recommendations.

### **SPTC ACTION PLAN:**

A review of profits and losses in the bookstore and cafeteria has already taken place. That has resulted in an approximate 10% cafeteria fee increase with proposed operating changes in the cafeteria for 1998.

Annual accrual-based financial statements will be prepared, which will include indirect cost charges for 1997, and subsequent years

### **SPTC RESPONSIBLE PERSON(S):**

Ron Zaudke (Business Manager)  
Milo Loken (Vice President Student and Administrative Services)  
Rick Caron (Accounting Officer)