Pine Technical College

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

September 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-47

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Mr. Eugene Biever, President
Pine Technical College

We have audited Pine Technical College for the period July 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, supplies and equipment, bookstore activities, and the Employment and Training Center. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Pine Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Pine Technical College, and members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 5, 1997.

James Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 17, 1997

Report Signed On: August 29, 1997

SUMMARY

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Pine Technical College

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

Public Release Date: September 5, 1997 No. 97-47

Background

Established in 1965, Pine Technical College is a two-year college that offers programs in business, health, management, and service occupations, including unique classes such as locksmithing, gunsmithing, security management, and taxidermy. Pine Technical College has been a part of the Minnesota State Colleges and Universities System (MnSCU) since the higher education merger on July 1, 1995. Prior to the merger, the Pine Technical College was part of Independent School District 578. Mr. Eugene Biever is the president of Pine Technical College.

Our audit scope covered the period from July 1, 1995 through December 31, 1996. We audited general financial management controls, tuition and fees, payroll, supplies and equipment, bookstore activities, and the Employment and Training Center. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997.

Conclusions

Pine Technical College did not properly administer its financial activities. The college did not adequately separate duties for critical financial responsibilities in tuition and fees, payroll, financial aid, and the bookstore. In addition, the college did not verify the accuracy of its accounting records by performing reconciliations of its major financial activities. The college did not comply with certain legal requirements concerning faculty leave accruals, one employee's early retirement, meals and refreshments, and federal cash management.

Pine Technical College also did not properly administer the financial activities of the Employment and Training Center. The center had several significant weaknesses in internal control, including separation of duties. We found several additional issues with the center, relating to adequate documentation, appropriate authorization, compliance with contract provisions, and proper recording of transactions.

In its written response, Pine Technical College agreed with the audit report. The response indicated that the college has already implemented many of the report's recommendations. It is in the process of making organizational changes, as well as policy and procedural changes, to address the remaining issues.

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
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Susan Kachelmeyer, CPA	Auditor
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Exit Conference

The following staff from Pine Technical College and the MnSCU system office participated in the exit conference held on August 13, 1997:

<u>MnSCU System Office</u>:

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

<u>Pine Technical College</u>:

Gene Biever	President
Garland Kotek	Vice President of Academic Affairs and Facilities
Kathy Hefty	Business Office Manager
Kim Brubaken	Employment and Training Center Manager

Chapter 1. Introduction

Established in 1965, Pine Technical College is a two-year college that offers programs in business, health, management, service occupations, and trade and industry. The college offers unique classes such as locksmithing, gunsmithing, security management, and taxidermy. It also has entered into partnerships with other educational institutions to share instructors and classes via interactive television. Pine Technical College is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. According to the registrar's office, the total enrollment for fiscal year 1996 was 1,948 students. Approximately 45 percent of the students attend part-time. Mr. Eugene Biever is the president of Pine Technical College.

Pine Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state universities, community colleges, and technical colleges throughout the state merged into one system of higher education. Prior to the merger, the Pine Technical College was part of Independent School District 578 and was audited by an independent CPA firm.

Pine Technical College funds its operations primarily from state appropriations and student tuition and fees. The MnSCU systems office allocates a portion of the systemwide appropriation to the individual colleges based on an allocation formula. Pine Technical College received $2,546,034 as its allocation for fiscal year 1996. The college is responsible for collecting tuition and fees from students. According to the MnSCU accounting system, Pine Technical College collected $1,003,791 in tuition for fiscal year 1996.

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Chapter 2. Financial Management

Chapter Conclusions

Pine Technical College did not properly administer its financial activities. The college did not adequately separate duties for critical financial responsibilities. In addition, the college did not verify the accuracy of its accounting records by performing reconciliations of its major financial activities. We also found that the college did not properly record its beginning balance amount on the state's accounting system at the time of the merger.

On July 1, 1995, the consolidated Minnesota State Colleges and Universities System (MnSCU) began operations. At that time, a new computerized accounting system, MnSCU accounting, as well as the State Colleges and Universities Personnel/Payroll System (SCUPPS) emerged. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained within the state treasury and local activity accounts maintained outside the state treasury. The state of Minnesota also implemented a new computerized accounting system (MAPS) and a new personnel/payroll system (SEMA4) that began operations on July 1, 1995.

In addition to these information systems, Pine Technical College uses the Minnesota Student Information System (MSIS) for student registration and accounts receivable. The college uses the Student Aid Reporting and Analysis System (SARA) for financial aid awards, Quicken to account for local bank activity in the Employment and Training Center, and a PC-based system called "Red Wing" to account for bookstore sales, accounts receivable, and inventory. Table 2-1 shows the various information systems used by the college during fiscal year 1996.

Table 2-1
Information Systems
Fiscal Year 1996

System	Description
MAPS	State Accounting and Procurement System
SEMA4	State Personnel/Payroll System
SCUPPS	MnSCU Personnel System
PPS	State Payroll/Personnel System (until FY 96)
MnSCU	MnSCU Accounting System
MSIS	Student Information/Registration System
SARA	Financial Aid Awards System
Red Wing	Bookstore Accounting System
Quicken	Employment & Training Center Local Account

Source: Auditor prepared.

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Audit Objectives and Methodology

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

- Did Pine Technical College properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Pine Technical College properly account for and control its local bank accounts?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent to which it was utilized for each of the individual program areas discussed in the following chapters. We also interviewed college personnel to gain an understanding of management controls in place over the local bank account and the tuition and fees, student financial aid, bookstore activities, and the Employment and Training Center that would impact Pine Technical College's ability to properly record its financial activities in MnSCU accounting and subsequently to the state's accounting system. We reviewed MnSCU transactions posted to the accounting records to determine if Pine Technical College properly recorded revenue and expenditure transactions on MnSCU accounting for both state treasury activities and local activities We also reviewed local bank account activity to determine if the college had complied with material finance-related legal provisions.

During our audit scope, the college president was very involved in the fiscal operations of the college and performed such duties as preparing and monitoring the budget, negotiating contracts and agreements for interactive television classes, approving material requisitions, maintaining leave balances for some administrators, and calculating severance payments.

The president prepared the budgets for fiscal years 1996 and 1997. As part of the budgeting process, the president set aside about ten percent of the supply and equipment budgets as a reserve. The president budgeted activities at the line item level and had a policy of keeping budgets tight, continually assessing and adjusting line items. Some of the budgets proved to be unreasonable. In fact, the college exceeded the original budgets for many line items. In some cases, the president moved some of the reserve funds into that cost center to increase the budget and cover the deficit. In other cases, the president challenged the staff concerning their purchase requests and did not approve them. Once budgets had been exhausted, the business office staff had to override the normal edits within the MnSCU accounting system to enter purchase requests. Overriding system edits often became routine, rather than being used on an exception basis.

Conclusions

We identified major concerns relating to Pine Technical College's overall financial management. Separation of duties is a significant problem for the college. We found separation of duties problems in tuition collections, personnel and payroll, as well as financial aid processing. Although the college has a fairly small business office, consisting of a business manager and two business office account clerks, it still had the capability to divide critical financial duties among its employees. Chapters 3, 4, and 6 provide detailed information on these problems. In both the bookstore and the Employment and Training Center, one person handled all of the accounting duties, providing no independent checking or review. Chapters 7 and 8 provide additional information on separation of duties issues in these areas.

In addition, we found that the college did not verify the accuracy of its major financial activities by performing key reconciliations and had not resolved its beginning balance at the time of the merger.

Finally, we found that Pine Technical College had not resolved many findings and weaknesses discussed in previous audits, made both by the Legislative Auditor's Office in its *Minnesota State Colleges and Universities Transition of Technical Colleges into State Government*, as well as by the college's independent auditor report for fiscal year 1995.

1. PRIOR FINDING NOT RESOLVED: Pine Technical College did not verify the accuracy of accounting records through key reconciliations.

The college did not verify the accuracy of its major financial activities by performing key reconciliations. Reconciliations help to ensure that the accounting records show all financial activity accurately and to detect errors or irregularities. Table 2-2 shows the college's key reconciliations and their status as of May 1997.

Table 2-2
Key Financial Reconciliations
Status as of May 1997

Reconciliation	Financial Activity Affected	Status	Related Finding #
MnSCU accounting to MAPS	All	FY 96 reconciled, FY 97 attempted, not successful	1
Bank to MnSCU accounting	All	Compared monthly activity, but not ending balances.	1
State depository to MnSCU accounting	All	Compared monthly activity, but not ending balances.	1
MSIS billable credits to MnSCU tuition collections	Tuition	Not done.	5
SCUPPS to SEMA4	Payroll	FY 96 reconciled, FY 97 not done	8
SARA to MSIS	Financial Aid	Attempted, not successful.	15
Bank to SARA	Financial Aid	Attempted, not successful.	15
MSIS to MnSCU accounting	Financial Aid	Not attempted, financial aid not entered onto MnSCU.	16
Bookstore inventory to Red Wing	Bookstore	Not documented.	24
MnSCU accounting to Red Wing	Bookstore	Not done.	26
Bank to Quicken	Employment and Training Center	Done, but no independent review.	28
Quicken to MnSCU accounting	Employment and Training Center	Not done.	29

Source: Auditor prepared.

The college reconciled the MnSCU and MAPS accounting systems in June 1996. The college attempted to reconcile the two systems again in October 1996. At that time, the college identified unexplained differences between MnSCU and MAPS. Although the college corresponded with the MnSCU system office concerning these differences, as of May 1997, they were still unresolved. The reconciliation between MnSCU and MAPS is essential to detect transactions that are not recorded consistently on the two systems.

The business office also did not properly reconcile the state and local bank account balances to the MnSCU accounting records. The business office reconciled the bank account balances to the prior month's adjusted balance, rather than directly to the MnSCU balances. In other words, the college compared the monthly activity on the two systems, but did not compare month end balances. As a result, the college would not be able to detect certain errors within MnSCU accounting records.

Recommendation

- *Pine Technical College should reconcile MnSCU accounting balances to MAPS on a monthly basis and resolve and correct any discrepancies.*

2. PRIOR FINDING NOT RESOLVED: Pine Technical College did not properly record its beginning balance in MAPS at the time of the merger.

The beginning General Fund balance that Pine Technical College recorded on MAPS was $4,000 less than the amount the system office calculated. At the time of the merger, the MnSCU system office instructed colleges to transfer beginning fund balances to the state treasury. MnSCU system office staff worked with the business office at Pine Technical College to determine the beginning balances to transfer to the state for each fund. Although the college's beginning balance for the General Fund was $31,476, the business office recorded a beginning balance of $27,476 in MAPS.

Recommendation

- *Pine Technical College should investigate and resolve the remaining $4,000 discrepancy in its MAPS beginning balance for the General Fund.*

Chapter 3. Tuition and Fees

Chapter Conclusions

Pine Technical College did not adequately control its collection of tuition and fees. The college did not adequately segregate cashier and registration duties. It also did not verify the accuracy of its tuition revenue. As a result, the college subjected its tuition collections to a high risk of loss or theft.

Pine Technical College collects tuition and fees from students registered for campus programs, customized training, and continuing education classes. For fiscal year 1996, Pine Technical College charged a resident tuition rate of $40 per credit plus miscellaneous fees. The college records registrations, billings, and collections on MnSCU's Student Information and Registration System (MSIS). The college recorded $1,003,791 on the MnSCU accounting system for fiscal year 1996 for tuition and fees.

Pine Technical College has entered into partnerships with 17 other educational institutions to share customized training and continuous credit classes via interactive television. Pine Technical College participated in the North East Alliance For Telecommunications and the Central Minnesota Long Distance Learning Network. Under these consortium agreements, the college worked with other educational institutions to provide and/or receive courses through interactive television. The consortium agreements facilitated the provision of courses that would not otherwise be viable due to low demand at each locality.

Pine Technical College also worked with businesses to provide customized training classes. These classes were designed to meet the needs of businesses that want to train their employees. The customized training course fees varied based on the cost of delivery.

During fiscal year 1996, the college also entered into an interagency agreement with the Department of Corrections-Willow River/Moose Lake to provide vocational and educational programs with employment-related goals for inmates housed at the facility. The college billed the correctional facility for actual costs, less any state aids generated, and received $518,504 during fiscal year 1996.

Audit Objective and Methodology

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

- Did the college design internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

Pine Technical College

To meet this objective, we interviewed college employees to gain an understanding of the internal controls over the billing, collecting, and recording of tuition and fee 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. We also tested a sample of transactions to determine the timeliness of deposits and proper recording of revenue on MnSCU.

Conclusions

The college has not adequately controlled its collection of tuition and fees. We found several weaknesses in the internal control structure over tuition receipts. The college collected tuition and fees at multiple points on campus and did not ensure adequate separations of duties. The college did not adequately safeguard its tuition receipts. It did not verify the accuracy of tuition revenue. As a result, the college has subjected its tuition collections to a high risk of loss or theft.

3. PRIOR FINDING NOT RESOLVED: Pine Technical College did not establish adequate separation of duties over tuition collections.

Employees from several areas within the college had the ability to register students, collect tuition revenue, and maintain tuition accounts receivable. Student service employees registered students, billed, and collected tuition revenue. Financial aid office employees also were able to update the registration system, apply tuition to student accounts, bill sponsoring agencies, collect tuition, and maintain tuition-related accounts receivable. The Farm Business and Small Business Management Departments registered students, billed and collected tuition revenue, and maintained tuition accounts receivable, as well. To provide adequate separation of duties, the same employees should not be able to both register students and collect tuition.

All of these employees had access to the registration, billing, and collection system (MSIS). In addition, one support staff employee also had update access to the fee table, where all the tuition rates were recorded. The college should limit access to MSIS only to the levels needed by employees to perform their job functions.

Staff with the ability to register students for classes should not have the ability to collect tuition and fee revenues and maintain accounts receivable. Without adequate separation of duties, the college faces a high risk that errors and irregularities could occur and not be detected.

Recommendations

- *Pine Technical College should establish adequate separation of duties over the collection of tuition and fee revenue.*

- *Pine Technical College should restrict logical access controls to MSIS to those functions needed by staff to perform their job.*

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4. Pine Technical College did not adequately safeguard its tuition receipts.

The college did not adequately control and safeguard tuition receipts before deposit. It did not restrictively endorse incoming checks to decrease the potential for loss or theft.

The college did not use a cash register to record and store incoming receipts. The college receives tuition and fees at several collection points, such as the student service office, the financial aid office, and the Farm Business and Small Business Management Departments. Student services staff kept tuition and fee revenue collected during the day in an unsecured money bag. All college employees able to collect tuition and other receipts had unlimited access to the money bag throughout the day. The student service office delivered the receipts to the business office at the end of the day for deposit.

The college also did not restrictively endorse incoming checks immediately upon receipt. The business office restrictively endorsed checks when preparing the deposit at the end of the day. Immediate endorsement of checks would reduce the risk of loss in case checks were lost or stolen.

Recommendations

- *The college should consider using a cash register to improve the security and accountability over the daily receipts.*
- *The college should restrictively endorse checks upon receipt to reduce the chance of cashing lost or stolen checks.*

5. PRIOR FINDING NOT RESOLVED: Pine Technical College did not verify the accuracy and reasonableness of tuition collections.

Pine Technical College did not reconcile billable credits on MSIS to tuition receipts recorded on the MnSCU accounting system. The college president attempted to do a reasonableness comparison of billable credits to tuition receipts. However, no one investigated and resolved the identified differences.

The college is involved in many unique tuition generating arrangements. These include cooperative arrangements with other colleges and with the Moose Lake Correctional Facility. These arrangements, along with the poor cash controls over tuition, make it necessary for the college to periodically reconcile tuition revenue to credits to ensure that it collected and accounted for all earned tuition and fee receipts.

Although the business office performs reconciliations of each day's tuition receipts to payments recorded on MSIS, the college should reconcile billable credits on MSIS to total tuition revenue recorded on the MnSCU accounting system. This reconciliation would determine the completeness and accuracy of the tuition revenue recorded on the MnSCU accounting system by verifying that deposits were correctly posted to MnSCU accounting. It would also serve as a basis for the college to analyze its outstanding accounts receivable.

Recommendation

- *Pine Technical College should reconcile the billable credits on MSIS to the tuition and fee revenue on a quarterly basis.*

6. PRIOR FINDING NOT RESOLVED: Pine Technical College did not promptly transfer tuition from the financial aid account into the state treasury.

Pine Technical College did not promptly transfer tuition paid by financial aid funds into the state treasury. The college maintains financial aid funds in a local bank account. The college credits financial aid to student accounts and disburses any remaining financial aid to students three weeks after the start of the quarter. In fiscal year 1996, the college did not move tuition and fees from the financial aid local bank account to the state depository for an average of 40 days after crediting student accounts. Table 3-1 shows the delay in transferring of financial aid tuition and fees.

Table 3-1
Tuition Transferring Delays
July 1, 1995 to December 31, 1996

School Quarter	Financial aid Disbursement Date	Transfer Date	Number of Days Delayed	Transfer Amount
Fall 1995	September 21, 1995	November 2, 1995	43 days	$98,805
Winter 1996	December 18, 1995	February 2, 1996	46 days	$99,017
Spring 1996	March 21, 1996	April 18, 1996	29 days	$88,258
Fall 1996	September 20, 1996	September 30, 1996	11 days	$48,000 (1)
Winter 1997	December 20, 1996	January 8, 1997	20 days	$92,308

(1) The first partial transfer to the state treasury occurred on September 30, 1996. The college made additional transfers on October 3 and October 16, 1996.

Source: Auditor prepared from school provided documentation.

The college did not enter the revenue into the MnSCU accounting system until the time of the transfer. Without that entry, the tuition also was not recorded on the state's accounting system (MAPS).

Recommendation

- *Pine Technical College should transfer tuition and fee revenue from financial aid funds to the state treasury at the time it distributes financial aid to students.*

7. PRIOR FINDING NOT RESOLVED: Pine Technical College did not require students to promptly pay their tuition.

Pine Technical College allowed students to attend classes without obtaining valid deferments. The college did not enforce its policy regarding tuition deferments. The policy states that a student may defer a tuition payment only by providing authorization from either the financial aid office or another funding source authorized by the college. The policy also states that students must be fully paid by the end of the quarter or the financial aid director will place a hold on their registration.

The college policy for deferments was not consistently followed. The financial aid director told us that setting up deferments was optional and that many students did not bother. The system allows anyone with update access to the registration system to override a registration hold. Many students did not pay and were not shown on the system as having valid deferments. The college did not have a system in place to ensure that students who had neither paid nor had a valid deferment did not continue to attend classes.

Recommendation

- *Pine Technical College should enforce its tuition policy and not allow unpaid students to continue to take classes.*

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Chapter 4. Payroll and Personnel

Chapter Conclusions

We identified several weaknesses in Pine Technical College's personnel and payroll processing. The college did not design adequate separation of duties over the payroll/personnel functions and did not reconcile SCUPPS to SEMA4 during fiscal year 1997. The college also did not comply with certain legal requirements concerning faculty leave accruals and one employee's early retirement.

Pine Technical College spent $3,553,928 on payroll during fiscal year 1996. Payroll expenditures represented 56 percent of total college expenditures. Table 4-1 shows the various bargaining units represented at the college.

Table 4-1
Employee Bargaining Units
Fiscal Year 1996

Bargaining Unit	Number of Employees
United Technical College Educators (UTCE)	33
American Federation of State County and Municipal Employees (AFSCME)	21
Minnesota Association of Professional Employees (MAPE)	22
Middle Management Association (MMA)	3
Excluded Administrators and Others	4
Total	**83**

Source: Auditor prepared.

Employees represented by United Technical College Employees (UTCE) bargaining unit worked without a contract from July 1, 1995, until May 1997 when they ratified a new agreement with the state. The college continued to pay UTCE employees under the terms of the old contract throughout our audit period. Pine Technical College will have to adjust faculty compensation for the provisions in the contract.

Pine Technical College

Audit Objectives and Methodology

Our review of payroll and personnel focused on the following questions:

- Did Pine Technical College design and implement internal controls to provide reasonable assurance that the appropriate payroll expenditures were properly authorized and accurately recorded in the accounting records?

- Did college payroll expenditures comply with applicable bargaining agreements?

The audit methodology used to evaluate the audit objectives over payroll and personnel included inquiries, reviews of payroll disbursements, and interviewing key personnel. We tested the recording of transactions in the personnel, payroll, and accounting systems.

Fiscal year 1996 was a year of transition for the college's payroll processing. During fiscal year 1996, the college used the State College and University Payroll/Personnel System (SCUPPS) to process and maintain personnel information. The college sent its biweekly payroll information to the MnSCU system office, where the transactions were entered onto the state's payroll system. On August 8, 1996, Pine Technical College converted to the state's new payroll system, SEMA4, and began processing its own payroll.

During the transition period, the college encountered problems with the interface between SCUPPS and SEMA4. Faculty whose appointment dates overlapped and classified employees with two or more appointments were not paid promptly. The systems could not handle these circumstances and, as a result, some employees were not properly paid. The college worked with the system office to manually update SEMA4 for those employees. Those problems have since been resolved.

At the time of the merger, the college noted discrepancies between the leave balances recorded on the school district's accounting system and balances recorded manually by individuals on their timesheets. In many cases, the balances on the school district's accounting system were higher. The college president and each affected employee worked together to come to a mutual agreement as to correct leave balances to record on the state's payroll system. In some cases, they agreed to use the lower balance, in some cases the higher balance, and in still other cases, they agreed on a compromise in between the two amounts. Although the approach appeared unusual, the MnSCU merger legislation indicated that those employed by the technical colleges should be transferred into state service without loss of pay.

Conclusions

Pine Technical College did not design adequate separation of duties over the payroll/personnel functions and did not reconcile SCUPPS to SEMA4 during fiscal year 1997. The college also did not comply with certain legal requirements concerning faculty leave accruals and an employee's early retirement.

Pine Technical College

8. Pine Technical College did not verify the accuracy of payroll records.

The college did not reconcile its payroll expenditures to the MnSCU Personnel System (SCUPPS) during the first six months of fiscal year 1997. The MnSCU system office requires reconciliations of SCUPPS to SEMA4 and PPS. At the end of each fiscal year, the college makes numerous adjustments to SCUPPS cost centers for payroll expenditures to reflect the charges for actual courses taught. As a result, the college staff believe that it is not useful to complete the reconciliations until the adjustments are made. However, by waiting until the end of the year, finding and correcting errors becomes more difficult. In addition, errors will not be detected and corrected in a timely manner.

Recommendation

- *The college should update cost center allocations as they occur and reconcile the SCUPPS and SEMA4 on a timely basis.*

9. Pine Technical College did not adequately separate duties over personnel and payroll functions.

The personnel and payroll functions at Pine Technical College are not adequately separated. The college employs a human resource director and a payroll clerk. The human resources director, responsible for entering personnel information into SCUPPS and SEMA4, supervised the payroll clerk. The human resource director had access to SEMA4 payroll screens and was responsible for entering the payroll when the account clerk was absent. In order to prevent errors and irregularities from occurring, the college should adequately separate the personnel and payroll functions. The college should not give the same employee access to record data on both the payroll and personnel systems. These duties should be properly segregated to ensure employees only have access to the information needed to complete their job responsibilities.

Recommendation

- *The college should separate duties over payroll and personnel functions.*

10. Pine Technical College did not accurately accrue leave for its faculty.

Pine Technical College gave faculty members two more days of combined leave for both fiscal years 1996 and 1997 than the bargaining agreement allowed. Faculty can use the leave to cover absences due to such things as family illness, doctor appointments, bereavement, other emergencies, and personal leave time.

College faculty received 20 days of combined leave. However, the United Technical College Educators (UTCE) contract allowed faculty only 18 days of combined leave. The contract limited personal leave time to two days per year. The contract included those two days within the 18 day total. However, Pine Technical College allowed faculty to receive 2 days of personal leave, in addition to the 18 days of regular leave, for a total of 20 days. This practice gave each faculty member two additional days to which they were not entitled.

Recommendations

- *Pine Technical College should work with the system office to correct the faculty leave balances.*

- *Pine Technical College should comply with the related bargaining agreements concerning leave accruals.*

11. Pine Technical College incorrectly calculated an employee's early retirement pay.

The college calculated an employee's retirement amount based on an incorrect age. As a result, the college calculated a total retirement amount of $1,200 greater than it should have been. Since the college pays early retirement pay in equal installments over a three-year period, the employee received a $400 overpayment both in 1996 and in 1997.

The faculty contract outlines the formula to be used to calculate early retirement pay. Employees are eligible for $1,000 for each full year of service, not to exceed $27,000, subject to a prorated formula based on the employee's age *at the end of the school year*. The older the faculty member is at retirement, the less early retirement pay the employee is eligible to receive. The employee was 58 at the time of retirement, but turned 59 before the end of the school year. While the college correctly calculated the total amount of early retirement pay, it used the proration percentage for age 58 rather than 59, resulting in the $1,200 overaward.

Recommendation

- *The college should recover the early retirement overpayment from the employee.*

Chapter 5. Supplies and Equipment

Chapter Conclusions

We found that, except for purchases made by the Employment and Training Center, as discussed in Chapter 8, Pine Technical College followed state procurement policies when purchasing supplies and equipment. However, we found that the college did not adequately account for its equipment and other fixed assets. We also found that the college did not properly account for the purchase of certain meal and refreshment expenditures.

Pine Technical College purchased supplies and equipment totaling $272,018 and $201,277, respectively, for direct college operations in fiscal year 1996. In addition, the Employment and Training Center Program, which administered certain grant programs for the college, purchased supplies and equipment totaling $15,859 for fiscal year 1996. Chapter 8 discusses the purchasing process and findings for the Employment and Training Center Program. We found that during fiscal year 1996, the college recorded $7,610 of refreshment and meal purchases for advisory committee meetings, staff events, and grant programs as supplies. These purchases represented about three percent of the college's total supplies expenditures during fiscal year 1996.

Audit Objective and Methodology

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

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

To meet this objective, we interviewed college staff to gain a general understanding of the internal control structure over supply and equipment purchasing and the payment process. We reviewed and analyzed disbursement data. We also tested a sample of purchases to determine whether the college had adequate supporting documentation and authorization, paid the correct amount, properly recorded the transactions in the MnSCU accounting system, and complied with MnSCU purchasing policies.

The college prepared material requisitions and purchase orders to initiate and control its supply and equipment purchases. The president of the college approved all material requisitions and payments to vendors. The business office entered and encumbered all expenditures and generated purchase orders using the MnSCU accounting system. The college placed orders with approved vendors and verified receipt of goods. The business office matched all material requisitions, purchase orders, encumbrances, packing slips, and vendor invoices to ensure that it paid the correct amount out of the correct budget. The college used the MnSCU to MAPS interface to generate and send payments.

Conclusions

Except for purchases made by the Employment and Training Center, as discussed in Chapter 8, Pine Technical College generally followed state procurement policies when purchasing supplies and equipment purchased from its general operating account. However, we found that the college did not maintain adequate records of its fixed assets. We also found that the college did not properly classify meals and refreshment expenditures.

12. PRIOR FINDING NOT RESOLVED: The college did not maintain adequate records for fixed assets.

Pine Technical College did not maintain adequate fixed asset records. The college used an internal data base to record its fixed assets. This data base was not complete. The college had not updated its fixed asset records for any purchases made since July 31, 1996. As a result, the inventory records did not include many recently purchased items. We also found that the records did not include complete information, such as purchase prices and acquisition dates, for 34 of the 93 assets acquired in fiscal year 1996. In one case, the college assigned eight different inventory numbers to one single piece of equipment. The college had not conducted a physical inventory of fixed assets since the merger. Because of this, it was impossible to determine the status of the records the college was using to track its fixed assets.

Recommendations

- *Pine Technical College should maintain accurate and timely fixed asset inventory records. The college should add to its inventory records as it purchases new assets.*

- *Pine Technical College should conduct a complete physical inventory of its fixed assets on a periodic basis.*

13. The college did not properly account for certain meal and refreshment expenditures.

Pine Technical College routinely recorded meal and refreshment purchases as supplies on the MnSCU accounting system. In addition, the college did not follow the appropriate policies regarding the purchase of meals and refreshments. During our review of supply and equipment expenditures, we found that in fiscal year 1996, the college miscoded at least $7,610 of meals and refreshments as supplies.

The college incurred refreshment expenses for various activities. The college paid for food served at meetings attended by many of the 441 members of its 28 advisory committees. The college held these committee meetings at several venues including the college, a casino, the local country club, and a supper club. Although these expenses were allowable costs under MnSCU policy, the college did not properly code and process them. The college routinely coded these purchases as "supplies" in MnSCU accounting.

In addition, the college paid for refreshments, including complete meals, for faculty and staff at various events including in-services, workshops, leadership meetings, and retirement parties. For example, expenditures for meals at the Fall 1995 and Fall 1996 faculty workshops alone totaled $915 and $702, respectively. We question the college's practice of routinely providing meals and refreshments to its employees. As of May 1997, MnSCU did not have an approved, formal policy in place for providing meals and refreshments to employees. However, Department of Employee Relations and Department of Finance policies generally prohibit state agencies from providing employees with meals or other refreshments at their regular work area, except under an approved exception, called "special expense." Special expenses are expenses incurred by a state employee in connection with official functions or assigned duties which are not reimbursable through the customary travel reimbursement process. Although the MnSCU campuses are not directly subject to the state special expense policies, we were told that they are expected to follow them pending the completion of a specific MnSCU policy.

Likewise, the college president did not charge these expenses to his department head expense account. According to MnSCU policy, the Pine Technical College president had the discretion to charge up to $5,000 of institution related expenses to department head expenses.

We also question the college's use of grant funds to purchase some of the meals and refreshments. The college paid for the purchases of refreshments from various college programs including grant programs. While some grant programs allowed refreshment expenses, others did not. We identified at least one grant program where the expenditure of $348.81 for meals and refreshments was questionable.

Recommendations

- *Pine Technical College should follow MnSCU expenditure coding policies for recording its meal and refreshment purchases.*

- *The college should follow applicable MnSCU policies for purchasing meals and refreshments, including the use of a MnSCU department head expense account, if applicable.*

- *The college should work with applicable grantors to ensure that it is in compliance with grant policies and regulations for reimbursements for refreshments.*

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Chapter 6. Financial Aid

Chapter Conclusions

We noted several significant weaknesses over federal financial aid at Pine Technical College. Financial aid employees had inappropriate access to the student registration and accounts receivable system and performed incompatible functions. The college did not independently verify the accuracy of key reconciliations. In addition, the college did not record financial activity on the MnSCU accounting system in a timely manner. The college did not accurately report expenditures on federal reports. Finally, the college did not request federal funds to coincide with disbursements.

Pine Technical College participated in several federal financial aid programs administered by the U.S. Department of Education. Table 6-1 summarizes program expenditures for fiscal year 1996.

Table 6-1
Federal Financial Aid Expenditures
Fiscal Year 1996

CFDA Number	Program	Total Expenditures
84.032	Federal Family Loan (FFEL)	$370,812
84.063	Federal Pell Grant	$311,757
84.007	Federal Supplemental Opportunity Grant (SEOG)	$ 20,000
84.033	Federal Work-Study (FCWS)	$ 10,525

Source: Auditor prepared from information provided by Pine Technical College.

Audit Objectives and Methodology

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

- Did Pine Technical College design and implement internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable general and specific program requirements?

- Did Pine Technical College comply with federal regulations governing cash management and federal reporting?

Pine Technical College

To meet these objectives, we interviewed college employees, reviewed and tested controls over compliance for determining eligibility, packaging and awarding, and disbursing state and federal financial aid funds. We also reviewed and tested controls over compliance for managing federal cash and reporting federal expenditures.

Pine Technical College uses the Student Aid Reporting and Analysis (SARA) system for packaging and awarding financial aid. The system packages Pell, SEOG, and Minnesota state grants based upon predetermined parameters such as the cost of attendance and the student's family ability to contribute towards the cost of education. The college packages the Federal Family Educational Loans and the Federal Work-Study separately based on unmet need. The financial aid office manually enters details of the packaged and awarded financial aid into MSIS (Minnesota Student Information System). MSIS applies financial aid to student charges and generates a check to the student for any remaining balance.

The Federal Pell grant is considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the number of credits a student is enrolled for. All eligible students receive Pell grants since the funding is not limited to the available funds at the college. The maximum Pell grant for the 1996-1997 award year was $2,470.

The Federal Family Education Loan (FFEL) program includes Subsidized and Unsubsidized Stafford Loans. The student borrower applies for the loan from a private lender. The school certifies the promissory note for qualifying students. The federal government guarantees the loan in case of default or cancellation. Approximately 95 percent of the loan proceeds are electronically deposited to the college's financial account. The federal government pays the interest to the private lender on Subsidized Stafford Loans while the student is in school and during certain deferment periods. For Unsubsidized Stafford Loans, the interest accrues from the date of origination and is the responsibility of the borrower. The borrower's grade level and the amount previously borrowed determine the maximum loan amount.

The Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant are additional sources of federal financial aid. The federal government share must not exceed 75 percent of the total expenditures in Federal Supplemental Educational Opportunity Grant and the Federal Work-Study Program. The state contributes 25 percent of the funding for the two programs.

Pine Technical College participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The college packages Minnesota grants along with federal financial aid. The Minnesota Higher Education Services Office determines eligibility for the state grant program and advances funds to the college for disbursement. The college disbursed $118,078 under the state grant program in fiscal year 1996.

Conclusions

We identified several significant weaknesses over federal financial aid at Pine Technical College. As discussed in the findings below, there was inadequate separation of duties over financial aid transactions, including access to SARA and MSIS. The college did not record revenues and expenditures on the MnSCU accounting system timely or correctly, federal reports were inaccurate and untimely, and the college did not independently verify key reconciliations for accuracy and completeness. Finally, the college did not request federal funds to coincide with the disbursements of those funds.

14. Pine Technical College did not adequately separate duties over financial aid transactions.

Pine Technical College did not adequately separate financial aid awarding and disbursing duties. The financial aid director packaged and awarded financial aid, disbursed financial aid by crediting student accounts on MSIS, maintained the financial aid bank account, and prepared the related federal reports. The financial aid assistant generated checks for students whose financial aid exceeded their tuition and fee charges.

The financial aid employees were also responsible for ensuring the accuracy of the financial aid accounting information. The financial aid director who awarded and disbursed financial aid was responsible for reconciling financial aid expenditures on SARA to MSIS. The financial aid assistant who generated checks from the local financial aid bank account also reconciled the bank statements for the account.

Finally, the financial aid director and the financial aid assistant also had incompatible access to the SARA and MSIS systems. Their access to SARA allowed them to award financial aid while access to MSIS allowed them to register, bill, and post payments to student accounts.

The ability to award and disburse financial aid, update the related information system, and reconcile systems and bank accounts all provided an opportunity for errors and irregularities to occur and go undetected. In addition, federal regulations also require separation of financial aid awarding from disbursing or delivery functions.

Recommendations

- *Pine Technical College should separate duties over financial aid transactions.*
- *Pine Technical College should limit system access to the levels individuals require to perform their duties.*
- *Someone independent of the financial aid awarding and disbursing functions should reconcile the financial aid accounting records.*

15. Pine Technical College did not verify the accuracy and completeness of critical financial aid reconciliations.

There were unexplained differences between financial aid expenditures recorded on SARA and those recorded on MSIS. The financial aid director did not always update codes on the SARA system to reflect actual financial aid payments. As a result, the financial aid director did not have a complete record of expenditures on SARA to compare to disbursements shown on MSIS.

Pine Technical College

Not updating SARA to reflect all actual financial aid disbursements caused several problems for the college. For example, the financial aid office understated state grant expenditures reported to the Minnesota Higher Education Service Office for the period ended March 14, 1997, by $338. In another instance, MSIS indicated that a student had received a Stafford Loan of $2,646 during spring quarter. However, SARA did not show a loan payment for this student.

It is important that the college update SARA to accurately reflect actual financial aid disbursements. The college uses the information on SARA to prepare reports to the federal government. Updating SARA would allow the college to have a basis for completely reconciling MSIS to SARA to verify the accuracy of its financial aid expenditures.

Recommendations

- *The financial aid office should routinely update SARA to reflect actual financial aid expenditures.*

- *Pine Technical College should reconcile MSIS to SARA and resolve any outstanding discrepancies.*

16. Pine Technical College did not record federal financial aid activity on the MnSCU accounting system accurately or timely.

Pine Technical College did not record fiscal year 1996 financial aid revenues and expenditures on the MnSCU accounting system until September 1996. The college had not recorded fiscal year 1997 federal student financial aid activity in the MnSCU accounting system as of April 1997. The business office told us that it had not recorded the federal financial aid activity because it could not reconcile the financial aid bank account to the financial aid revenue and disbursement records.

The college did not properly record fiscal year 1996 financial aid revenue. The college recorded the revenue as an offset against expenditures, using an expenditure object code. The college should record financial aid receipts as revenue in order to provide accurate information for decision making.

Recommendation

- *Pine Technical College should record the financial aid activity on the MnSCU accounting system timely and accurately.*

17. Pine Technical College did not document satisfactory academic progress for financial aid recipients under consortium agreements.

Pine Technical College did not document the academic progress of students attending other institutions under consortium agreements. Under federal regulations, students attending more than one higher education institution must have a primary school which is responsible for determining financial aid eligibility and tracking the students' progress. Although Pine Technical

College was responsible for determining financial aid eligibility for these students, the college did not have access to grade transcripts provided by other institutions to these students. The financial aid director told us that students brought their grade transcripts to the financial aid office for review. However, the college did not maintain a copy of this documentation in the students' files. The college needs all of the students' grades to calculate cumulative grade data to verify that the students were achieving satisfactory academic progress.

Recommendation

- *Pine Technical college should maintain documentation in recipients' files to support eligibility determination.*

18. Pine Technical College submitted inaccurate information on federal financial aid reports.

During fiscal year 1996, Pine Technical College submitted inaccurate information to the federal government both on its federal cash transaction reports and its Fiscal Operations Report and Application (FISAP) report. The college submitted inaccurate disbursement information on all four of the quarterly federal cash transaction reports it completed for fiscal year 1996. The college reported a negative net disbursement of $266,856 for the first quarter, while actual expenditures for the period were $114,114. The college also incorrectly reported federal work-study program expenditures on all four reports. In addition, the college submitted three of the four cash transaction reports late.

The college also overstated the tuition and fee revenue for the award year July 1, 1995, through June 30, 1996, as reported on the FISAP. The college reported budgeted tuition revenue instead of the actual amount, resulting in an overstatement of approximately $115,935 on the report.

Recommendations

- *Pine Technical college should file accurate and timely federal financial aid reports.*

- *Pine Technical College should review its fiscal year 1996 reports to the federal government and submit corrected reports as needed.*

19. PRIOR FINDING NOT RESOLVED: Pine Technical College did not request federal funds to coincide with the disbursement of those funds.

Pine Technical College did not use proper cash management procedures when requesting federal financial aid funds. The timing and amounts of its federal cash requests did not coincide with the disbursement of those funds.

The requested amounts did not correspond to the amounts disbursed for financial aid. During fiscal year 1996, the college made four major cash requests, one near the beginning of each quarter when most students received their financial aid. However, the cash amounts the college requested for financial aid did not correspond with the amounts the college disbursed to students for the quarter. In most cases, the financial aid director requested the federal cash amounts in even increments of $10,000.

The timing of the drawdowns was detrimental to the state. In some cases, the college did not request federal funds until several days after it had distributed financial aid checks. The college temporarily financed its financial aid payments to students by delaying its transfer of tuition from the financial aid account to the state treasury (see related Finding 6).

In addition, the college did not request federal funds for federal work-study promptly either in fiscal years 1996 or 1997. While the college paid student workers bi-weekly, the college did not request funds each pay period. The college only requested federal work-study funds twice in fiscal year 1996, once in September 1995, and once in January 1996. The college also drew fiscal year 1995 federal work-study funds in November 1995, long after the students had been paid. In fiscal year 1997, we found generally that the college requested federal funds more often. However, the college still only received federal funds about once per month, rather than at the end of each student payroll period.

Recommendation

- *Pine Technical College should request federal funds to coincide with the disbursement of those funds.*

20. Pine Technical College overpaid financial aid to one student.

Pine Technical College overawarded a student $258 in Federal Unsubsidized Stafford Loans. The student received funding from the Job Training Partnership Act (JTPA) during winter and spring quarters of fiscal year 1996. The college did not reduce the state grant and Unsubsidized Stafford Loan awards enough to avoid overpaying the student. The student received total financial aid of $10,214 which exceeded the cost of attendance by $258.

Recommendation

- *Pine Technical College should work with the U.S. Department of Education to resolve the Federal Unsubsidized Stafford Loan overpayment.*

Chapter 7. Bookstore Operations

Chapter Conclusions

Pine Technical College did not design and implement internal controls to provide reasonable assurance that bookstore revenues and inventory were complete, adequately safeguarded, and accurately recorded in the accounting records. Our review of the bookstore identified numerous weaknesses, including the following:

- ***lack of separation of duties over revenue and inventory,***
- ***lack of documentation for voided and return transactions,***
- ***inadequate documentation for changes to financial aid vouchers, and***
- ***lack of verification of financial activity accuracy.***

The Pine Technical College bookstore sells books, school supplies, clothing, and other items. The bookstore accounts for bookstore sales through a point-of-sale computer program called Red Wing, which is directly linked to the cash register. The college uses the Red Wing system to account for bookstore sales, accounts receivable, and inventory. Students have the option of paying by cash, checks, credit cards, or using a financial aid voucher. At the end of each day, the bookstore produces a report from Red Wing that summarizes the daily sales transactions. The bookstore clerk posts these transaction amounts on a daily cash reconciliation form when closing out the cash register. The clerk takes the receipts, the reconciliation form, and supporting computer reports to the business office. The business office prepares the deposit and records the sales on the MnSCU accounting system. Bookstore revenue recorded on the MnSCU accounting system for fiscal year 1996 totaled $130,856.

The bookstore clerk prepares purchase requisitions for supplies. College instructors prepare purchase requisitions for books. The clerk forwards the requisitions to the business office for processing. The clerk receives purchases and records them on the Red Wing inventory module. Bookstore expenditures recorded on the MnSCU accounting system totaled $136,003 for fiscal year 1996.

Audit Objective and Methodology

Our review of bookstore operations was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

To answer this question, we interviewed the bookstore clerk and business office personnel to gain an understanding of the controls in place over bookstore revenues and expenditures. We tested samples of transactions to determine if the college had adequate supporting documentation and had accurately recorded the transactions on the MnSCU accounting system.

Conclusions

Our review of the bookstore operations indicated a very weak system of internal controls. One employee, the bookstore clerk, ran the entire bookstore operation with the assistance of student workers. We also found lack of documentation for several bookstore activities, including voids and returns, financial aid vouchers, and inventory. The college has not produced a set of comprehensive financial statements for the bookstore, even though the college believes that the bookstore has been operating at a loss.

21. Pine Technical College did not establish adequate separation of duties over bookstore operations.

Pine Technical College assigned basically all duties relating to bookstore operations to one individual. The bookstore clerk was responsible for ringing up all sales, voids, and returns; closing out the cash register at the end of the day; and balancing to petty cash and receipts per the register. The bookstore clerk also billed accounts receivable for bookstore charges. The clerk collected payments on receivables and posted them to accounts.

The clerk also cashed personal checks for college employees and students, including the clerk's own checks. Allowing the clerk to replace part of the cash in the bookstore cash register with personal checks heightened the risk of misappropriation of bookstore receipts.

The college should separate key bookstore duties. Someone other than the bookstore clerk should review and approve voids and returns. Someone independent of bookstore operations should close out the cash register and reconcile the receipts at the end of the day. The clerk should discontinue the practice of cashing personal checks in the bookstore. The college should assign bookstore accounts receivable billings and collections to someone not involved in cash collections. Without adequate separation of duties, the college faces a high risk that material errors or irregularities could occur and not be detected.

Recommendation

- *Pine Technical College should establish adequate separation of duties over bookstore operations in order to prevent and detect material errors or irregularities should they occur.*

22. The Pine Technical College bookstore did not document voided and return transactions.

The bookstore clerk did not maintain any documentation for voided transactions or for merchandise return transactions. When the clerk voided a transaction, the system deleted the original invoice number and the details of the transaction from the Red Wing system, leaving no audit trail. As a result, voided transactions do not appear on any computer reports. When a student returned an item, the bookstore clerk recorded the transaction on the system. While the total amount of returns appeared on the computer reports, no one reviewed these transactions. In addition, there was no documentation to support what the student returned and the refund amount.

Voided and return transactions are sensitive transactions because they represent decreases to cash collections. The lack of documentation and independent review of these transactions increases the risk that amounts recorded as returns or voids were inaccurate or inappropriate. Someone independent of the transaction should review and approve all voided and return transactions. The college should maintain documentation for these transactions.

Recommendations

- *Pine Technical College should document voided and return transactions. The college should review its software package to determine whether the system is able to automatically maintain a record of these transactions.*

- *Someone independent of the bookstore should review and approve voided and return transactions.*

23. The Pine Technical College bookstore allowed students to exceed the value of their financial aid vouchers.

The college bookstore clerk changed financial aid voucher amounts which allowed students to purchase more than the vouchers authorized. In addition, there was incomplete documentation for amounts charged on some financial aid vouchers.

Each student eligible for financial aid for books and supplies receives a voucher from the financial aid office. The voucher states the amount of aid available. The student can use the voucher at the bookstore to purchase books and supplies. The bookstore clerk records the amount of the purchase on the voucher and initials the voucher. The student also signs the voucher indicating receipt of the items. The clerk rings the sale through the register as a charge transaction. The student then signs the cash register receipt. The clerk attaches the signed receipt form to the voucher. The bookstore clerk sends copies of the signed vouchers and receipts back to the financial aid office. The financial aid office completes a list of students receiving vouchers and the amount charged. The financial aid office generates a check which the bookstore clerk posts to the individual student accounts.

We found twelve financial aid vouchers where the bookstore clerk crossed out the authorized amount and recorded a higher amount to agree with the student's total bookstore charges. Increases ranged from $7 to $72 per voucher. There was no documentation of approval by the financial aid office for the increased amounts. We also found no vouchers or receipt forms on file for payments made for 11 students. We found 23 vouchers that did not have receipt forms to support the total voucher amount.

Pine Technical College

We also found one case where the bookstore did not post the financial aid receivable properly. The voucher indicated that the student had charged $120. However, the financial aid office paid the bookstore $95.60, of which the bookstore posted $87.10 to the student's account.

Exceeding the authorized voucher amount increases the risk that students could exceed financial aid awarded and the financial aid office would not reimburse the bookstore for those charges. The financial aid office should approve and document any changes to the amount on financial aid vouchers.

Recommendations

- *The financial aid office should approve and document any changes to voucher amounts.*

- *The bookstore should include cash register receipts with all used vouchers returned to the financial aid office.*

24. Pine Technical College did not maintain adequate controls over bookstore inventory.

The perpetual bookstore inventory system did not contain accurate information. The bookstore clerk did not record all purchases on the system in a timely manner. In addition, there was no documentation supporting that the college conducted a physical inventory during fiscal year 1996.

We performed a test count of bookstore inventory using a report generated from the bookstore's Red Wing system. Test results showed that the system had incorrect inventory balances for 28 out of 60 products we counted. Some of the quantities counted were less than the amounts shown on the report, while others were more. In one case, we found that the bookstore did not include five tools priced at $65 each on the system. We also found eight products with negative quantities listed on the report. We concluded that the inventory records maintained on the Red Wing system were unreliable.

Without accurate inventory information, the college is unable to measure the financial results of bookstore operations or accurately track purchases and sales of merchandise. The college should complete a physical inventory annually and document the results of the inventory.

Recommendations

- *The college should complete a physical inventory annually and document the results of the inventory.*

- *The college should improve the accuracy of its perpetual bookstore inventory system.*

Pine Technical College

25. Pine Technical College did not properly handle bookstore accounts receivable.

Pine Technical College did not have proper procedures for creating bookstore accounts receivable and writing off old accounts receivable. In at least one case, the bookstore clerk allowed a student to purchase books without signing a charge slip. The bookstore did not have any charge slips on hand that day. The clerk allowed the student to take the books and asked the student to come back the next day to sign the charge slip. The student never came back to sign the slip and the college could not determine if the student ever paid the obligation.

The bookstore clerk maintained the accounts receivable list. The clerk is supposed to determine which accounts to write-off and ask the business manager to approve them. We found at least one account for $66.50 that was written off without supporting documentation and with no approval by the business manager.

Finally, the bookstore erroneously recorded charge card fees as outstanding accounts receivable. The bookstore recorded the difference between the amount the student charged and the net amount paid by the credit card companies as a receivable rather than an expense.

Recommendations

- *Pine Technical College should develop a consistent and effective procedure for writing off old accounts receivable.*

- *The college should approve and document all write-offs.*

- *The college should record charge card fees as expenses rather than accounts receivable.*

26. Pine Technical College did not verify the accuracy of bookstore financial activity recorded on the MnSCU accounting system.

Pine Technical College did not reconcile information on the Red Wing accounting system to information recorded on the MnSCU accounting system. The college records all bookstore sales activity on the Red Wing accounting system. The bookstore clerk generates daily computer reports of bookstore sales and changes in accounts receivable. The business office enters the sales information onto MnSCU accounting. The college did not reconcile MnSCU reports to Red Wing reports to ensure that it accurately recorded all activity. Reconciliations help to ensure that the accounting records accurately reflect all activity that has taken place, as well as to protect against errors and irregularities.

Recommendation

- *Pine Technical College should reconcile bookstore activity recorded on the Red Wing system to the MnSCU accounting system on a timely basis.*

Pine Technical College

27. Pine Technical College has not measured the financial results of its bookstore.

Pine Technical College has not prepared complete financial statements for its bookstore. Because of numerous problems with the bookstore's inventory, accounts receivable, and fixed assets (see related Findings 12, 24, and 25), the college has not accurately projected the bookstore's net income or loss, or its overall financial position. Bookstore revenues recorded on MnSCU accounting for fiscal year 1996 totaled $130,685, while bookstore expenditures for the same period totaled $136,003. However, these amounts did not show all bookstore activities on an accrual basis, properly matching expenses to revenue.

The bookstore has been operating under significant financial stress. Although reliable financial information is not available, the college believes that the bookstore has been operating at a loss. On July 1, 1996, the college entered into a loan agreement with Rochester Community College to borrow $75,000 for the Pine Technical College bookstore. The purpose of the loan was to provide cash flow for purchasing textbooks and supplies for sale to students. Complete and accurate financial information on the bookstore is imperative to making decisions concerning markups and purchases. The bookstore should be a self-supporting enterprise and should account for its operations in a manner similar to private business.

Recommendation

- *Pine Technical College should prepare a complete set of financial statements for the bookstore at least annually.*

Chapter 8. Employment and Training Center

Chapter Conclusions

Pine Technical College did not properly administer the financial activities of the Employment and Training Center. We noted several significant weaknesses in controls over receipts and disbursements. The Employment and Training Center had a complete lack of separation of duties. In addition, the college did not properly account for and verify the accuracy of the center's activities and fund balance. We found several additional issues relating to adequate documentation, appropriate authorization, compliance with contract provisions, and proper recording on the MnSCU accounting system.

Due to the significant weaknesses in controls, the college ran an exceptionally high risk that material errors or irregularities could have occurred within the Employment and Training Center without detection.

Pine Technical College houses the Employment and Training Center. The college runs federal, state, and county programs to aid dislocated workers through the center. The college entered into a contract with the Private Industry Council (PIC) to administer these state and federal programs. The college also entered into contracts with various counties to administer related child care programs.

The contracts describe the funding level, program budget for administrative and client services, reporting requirements, and cost reimbursement requirements. The contract responsibilities taken on by the college do not seem consistent with the normal business functions and responsibilities of the college.

College personnel explained that the relationship between the college and the PIC evolved as a result of a "natural fit" between services provided by the college and those programs administered through the PIC. Many of the individuals receiving program services also needed skills training which the college could provide. Clients receiving training at the college had convenient access to other program support services on campus. College personnel felt that the college ultimately benefited by enrolling students that may not have otherwise attended Pine Technical College. Table 8-1 presents a brief description of each program administered by the college through the center.

Table 8-1
Programs Administered by the
Employment and Training Center
Fiscal Year 1996

Project STRIDE:
Assists AFDC (Aid to Families with Dependent Children) clients in becoming self-sufficient. Services include skills assessment, support service money to help with transportation, referral to secondary and post-secondary education, help in finding and retaining employment, and other case management services.

Food Stamp Employment and Training Program (FSET):
Assists food stamp recipients in finding permanent work. Offers workshops on skills such as writing resumes, how to fill out applications, and interviewing techniques in addition to individual case management services.

Minnesota Family Investment Program (MFIP):
Case managers assist clients with the move to self-sufficiency by setting four goals: (1) to help families increase their income; (2) to support families' transition to self-sufficiency; (3) to prevent welfare from becoming a long-term source of primary income; and (4) to simplify the system.

Job Training Partnership Act (JTPA) Classroom Training:
Offers economically disadvantaged eligible participants assistance with books, tuition, transportation, and child care while attending post-secondary training.

PINCH (Pine and Chisago Counties Youth Programs):
Places special education and Area Learning Center students in Pine and Chisago counties out in the community working (for pay) at a public sector job during the school day. Students receive academic credit for work and gain work experience.

Child Care Funds for Isanti, Mille Lacs, and Pine Counties:
Assists participants in paying for child care for either work or going to school. Provides reimbursement to child care providers.

Child Care Resource and Referral Program (CCR&R):
Provides parents with individualized referrals for child care, consultation on how to select a provider, information about regulations, and information about special services available in the communities. Offers assistance to child care providers by providing resource materials, technical assistance in becoming a licensed care giver, training workshops and conferences, assistance in filling vacancies, and access to grant and scholarship programs.

Special Projects To Reduce AFDC Dependency:
Moves public assistance recipients into self-sufficient jobs by assessing recipients' skills and providing education in areas of deficiency.

Source: Auditor prepared from ETC program information.

The college recovers the costs of running its center programs through reimbursements from the state, the PIC, and various counties. The college expects the center to be self-sufficient, requiring no additional funding. Employment and Training Center personnel are employees of the college. The college employs eleven case managers and three support service staff at the center. The college recovers center payroll costs through program reimbursements from the PIC. However, the college does not allocate all of the center's operating costs back to the center. For example, it does not require the center to pay rent to the college for the office space it occupies on campus. Table 8-2 shows the reimbursement activity for each of the center's programs during fiscal year 1996.

Table 8-2
Employment and Training Center Programs
Program Reimbursements
Fiscal Year 1996

Program	Reimbursements
STRIDE	$397,843
Food Stamp Employment & Training (FSET)	108,044
Minnesota Family Investment Program (MFIP)	101,813
JTPA Classroom Training	135,445
PINCH	58,133
Child Care	253,339
Child Care Resource and Referral Program	58,408
Special Projects to Reduce AFDC Dependency	6,251
Total	**$1,119,276**

Source: Auditor prepared from MnSCU accounting records.

Case managers at the Employment and Training Center determine which services a client is eligible to receive and prepare support service requests. The center accountant receives requests and issues checks to the clients or to vendors on clients' behalf. However, we noted instances where the accountant returned support service checks to the case manager instead of to the client or vendor. The Employment and Training Center manager is also the case manager for the PINCH program and for the STRIDE program in three counties.

Audit Objectives and Methodology

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

- Did Pine Technical College design and implement adequate internal controls to properly administer Employment and Training Center financial activities?

- Did Pine Technical College adequately document, appropriately approve, and properly record receipt and disbursement transactions on the MnSCU accounting system?

We did not audit compliance with specific program requirements such as client eligibility.

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

Pine Technical College

Conclusions

Pine Technical College did not provide reasonable assurance that the Employment and Training Center properly administered its financial activities. We noted significant weaknesses in controls over receipts and disbursements. Due to these weaknesses, the college ran an exceptionally high risk that material errors or irregularities could have occurred at the center without detection.

28. Pine Technical College did not properly segregate critical financial duties in the Employment and Training Center.

The college did not separate critical accounting duties in the Employment and Training Center. The center's accountant performed all accounting duties, including maintaining accounting records, performing local bank statement reconciliations, initiating purchases and making the payments for those purchases, preparing invoices for reimbursements and receiving the actual reimbursements, and depositing all receipts. The accountant often authorized invoices or purchase orders. No other individual at the college understood what the accountant did or how the accountant maintained the center's records. The accountant felt unable to take vacations or other time off since no one else understood the job.

No one within the college performed independent reviews of the center accountant's work to verify the accuracy of that work. The college did not require authorizations or reviews by other employees for work prepared by the center accountant. The accountant reported to the center director, but no other employees were cross trained in the accountant's duties.

We also noted that the center director, in addition to management duties, also served as a case manager for four programs. Thus, this individual could authorize client support service payments, sign these checks, and then disburse these checks to clients.

Recommendations

- *The college should separate critical center accounting functions, including cash receipts, invoice and payment processing, and key authorizations. One person should not be allowed to control all aspects of an accounting process.*
- *Other college personnel should be cross-trained to understand the manner in which the center operates, the accounting system in place, and the processes used by the accountant for disbursements and receipts.*

29. The college did not properly account for and verify the accuracy of center activity within MnSCU accounting.

The college did not reconcile or review the center's financial activity and fund balance to ensure that the center properly posted transactions to the correct MnSCU fund and that the center recovered all of its costs. There were significant problems with the way the college recorded and tracked the financial activity of the center both in fiscal years 1996 and 1997. The center used a PC based accounting system called Quicken to account for its local activity. The college has not attempted to reconcile Quicken to the information contained on MnSCU accounting.

Pine Technical College

The college originally accounted for the center's activities within a MnSCU Private Grant Fund. At the request of the MnSCU system office, the college made several entries just prior to the close of fiscal year 1996 to move all the center's transactions from the Private Grant Fund to a Special Revenue Fund. Since that time, the college has not reconciled the MnSCU fund balance to the center's Quicken records to ensure that the accountant's assessment of the center's activity agreed with the amount presented in MnSCU accounting.

The college may have exceeded contract amounts for the STRIDE program in fiscal year 1996. We found that the total dollar amount coded on MnSCU accounting for fiscal year 1996 as reimbursed to the college exceeded the contract amount by $2,237. However, without a complete reconciliation of the accounting records, we could not determine if the college had posted its reimbursements properly on the system and had, in fact, exceeded the contract amount.

Theoretically, at the end of each fiscal year, the fund balance for the center's activities should be zero. All of the center's operating costs should be reimbursed through the programs it administers. MnSCU accounting shows the center's Special Revenue Fund revenues exceeded expenditures by $6,979 at the end of fiscal year 1996. The college expressed concerns about the accuracy of those amounts. Because the college did not perform a review and reconciliation of the MnSCU fund balance to the center's accounting system, the college could not determine if the Employment and Training Center had been self-sufficient.

During fiscal year 1996, the college used the local imprest cash account to pay recurring center expenditures, such as payments to child care providers, employee travel reimbursements, supply expenses, and other miscellaneous operating expenses. The college recorded the local imprest cash reimbursements in summary form onto the MnSCU accounting system. The college should have processed those payments through the MnSCU accounting system and MAPS to generate warrants by the Department of Finance. The college should only use the center's imprest cash account to disburse client support service payments. Using the local imprest cash account to pay operating expenses does not provide a trail on the MnSCU and MAPS systems of what vendor payments made on behalf of the center.

During fiscal year 1996, the center accountant generated the center's own purchase orders, self-numbered these purchase orders, and did not enter or encumber these purchase orders on the MnSCU system until October and November 1996. At that time, the accountant entered July through November activity on the MnSCU system for fiscal year 1997.

The college was aware that the center activity recorded in the Special Revenue Fund for fiscal year 1997 was not complete. The college posted the center's payroll transactions to an incorrect fund and had not made corrections as of May 1997. In addition, the college recorded all fiscal year 1997 Child Care and Child Care Resource and Referral program activity in the State Grant Fund. The college should have recorded this activity in the Special Revenue Fund where it recorded all other center activity.

Furthermore, the college did not have an accounting system in place to determine receivables for amounts the center invoiced or to track costs incurred by the program that the center had not yet invoiced. Thus, other than handwritten notes that only the center's accountant understood, no system was in place to ensure that the center recovered all legitimate costs incurred by the program.

Recommendations

- *The college should properly record all of the center's financial activity into the MnSCU accounting system.*

- *The college should review the reimbursements for the STRIDE program and work with PIC to ensure that the college did not overspend its fiscal year 1996 contract amounts.*

- *The college should only make client support service payments from the center's imprest cash account. The college should enter recurring program operating expenses into the MnSCU accounting system to be paid through a state warrant.*

- *The college should generate purchase orders directly from the MnSCU accounting system.*

- *The college should review and reconcile the MnSCU Special Revenue Fund balance to records maintained by the center's accountant to ensure that transactions are posted correctly and that the center recovers all costs incurred.*

30. The college did not properly manage the center's cash collections and deposits in some cases.

The college did not submit Job Training Partnership Act (JTPA) invoices in a timely manner. In addition, the college did not deposit some receipts in a timely manner.

The college did not bill JTPA costs timely. The college did not submit invoices for center costs on a monthly basis, as the contract with the Private Industry Council (PIC) required. Instead, in December 1996, the college submitted an invoice totaling $38,923 to the PIC for center costs incurred in the five month period from July 1, 1996, through November 30, 1996. The college received reimbursement for these costs in January 1997. Because the college did not submit the invoice timely, it, in effect, temporarily subsidized the JTPA program.

The college also did not always deposit center reimbursement receipts in a timely manner. During our review of receipt transactions, we found that the college did not promptly deposit eight of sixteen center deposits tested. Most deposits occurred two to three days after receipt of the reimbursement. The late receipts ranged from $554 to $24,757. Minn. Stat. Section 16A.275 requires that receipts of $250 or more be deposited on a daily basis.

Recommendations

- *The college should submit invoices requesting reimbursement for program costs in a timely manner.*

- *The college should deposit receipts of $250 or more on a daily basis as required by Minn. Stat. Section 16A.275.*

31. The college maintained a negative balance in the center's local bank account for three months and invoiced overdraft charges as supplies.

The center's local bank account had negative ending account balances from August through October 1995, ranging from ($1,718) to ($24,362). The college did not establish a mechanism for the center to replenish the local bank account until November 1995. However, the college continued to write checks from the account. In November, the college received a local imprest cash reimbursement and brought the local bank account to a positive balance.

As a result of the negative balances, the college incurred $1,628 in overdraft charges from the bank. The college recorded these overdraft charges as supplies on invoices submitted to the PIC for reimbursement. The PIC ultimately reimbursed the college for these overdraft charges. Nothing in the contract with the PIC indicated that overdraft charges were appropriate program costs to be reimbursed. The college did not obtain permission from the PIC to submit these overdraft charges for reimbursement.

Recommendation

- *The college should notify the PIC of the overdraft charges and resolve whether they qualify as eligible costs.*

32. The college did not properly account for equipment purchases.

The college did not follow contract provisions when purchasing equipment for the center. The college recorded equipment belonging to the PIC on the college's inventory records. The college purchased computer and copy machine equipment totaling $17,746 for the center. Over a two year period, the center invoiced the PIC for these costs and received reimbursement. The center then reimbursed the college for these purchases. Therefore, the PIC ultimately purchased the equipment.

The contract the college has with the PIC states:

> All items of non-expendable property acquired by Contractor with funds awarded under this agreement shall be considered capital equipment and shall be inventoried as property of PIC 5 and shall be returned to PIC 5 upon termination of this agreement. Non-expendable property shall be delivered to PIC 5 to make it available to the next subcontractor providing services in that county.

During fiscal years 1996 and 1997, the college purchased additional computer equipment for the center. The college recorded this equipment as supplies, rather than equipment, on the MnSCU accounting system. The college also billed this equipment to the PIC as supplies rather than equipment. The center's accountant explained that the center did not have an equipment budget in the contract with the PIC and, as a result, invoiced equipment costs as supplies.

Recommendations

- *The college should record center equipment reimbursed by the PIC as assets of the PIC. These assets should not be included with the college's fixed assets.*

- *The college should comply with contract agreements with the PIC regarding property management.*

33. The college did not properly handle the center's client support service disbursements.

The center's case managers did not require receipts from clients for support service disbursements. Some case managers received client support service checks they had authorized to be disbursed to their clients.

Thirty percent of support service disbursements that we tested did not have supporting receipts for the amount disbursed to the client. Although case managers told us that they asked clients to submit receipts, they did not require that a client submit a receipt in order to receive additional support payments. The center manager explained that although the PIC required receipts for client support service disbursements, the center did not make that a requirement for their clients. The center makes payments to many businesses on behalf of its clients. We found checks written to credit card companies, local department and discount stores, gas stations, and telephone companies. Because these are sensitive payments, the clients should routinely provide documentation to support the payments and show that they were actually the beneficiaries of the goods and services.

In most cases, the college sent client support checks directly to the client or to the vendor. The case managers authorized payment to the client or to the vendor listed on the check on the client's behalf. However, at times the center accountant gave the support check to the case manager for disbursement. Returning payments authorized by the case managers to these same individuals increased the risk that these payments could have been used inappropriately.

Recommendations

- *The college should require that center clients provide receipts for client support service payments. These receipts should be in the client's file to support disbursements made to the client or on the client's behalf.*

- *The college should send client support checks directly to the client or the vendor on behalf of the client.*

34. The college may have charged excess child care administrative costs to other programs.

The college may have billed child care program administrative costs in excess of that allowed by the child care contract. We could not determine from the center's records the total administrative costs charged to specific programs. However, the center's accountant believes that administrative costs for the child care program exceeded the amount allowed. As a result, the accountant charged these costs to other center programs, including STRIDE and FSET.

The child care contract states that the total amount paid for administrative services cannot exceed ten percent of total disbursements made for day care services. The STRIDE contract limits administrative expenses to six percent of total program expenditures. The FSET contract limits the administrative expenditures per new registrant to $275.

Recommendations

- *The college should not charge excess child care administrative costs to other programs for reimbursement.*

- *The college should determine the amount of excess child care program administrative costs charged to other programs and reimburse the PIC for these amounts.*

35. The college did not have lease contracts in place for office space the center occupied.

The college did not have lease agreements in place for office space in three separate locations the center occupied during fiscal year 1996. In at least one case, it paid rent for space before the rental contract was finalized.

In one case, the center took possession of leased office space in the city of Milaca in July 1995. However, the rental contract was not finalized until March 1996. Despite the lack of a formal contract, the college made a rent payment of $1,050 on the space in January 1996. The college invoiced estimated accrued rental expenses of $500 to the PIC in December 1995.

During fiscal year 1996, the college leased office space for the center at the Cambridge Regional Human Services Center from the Department of Human Services. The college had a lease agreement in place for the months of July through October 1995. After that time, the college wanted to extend the lease. The extension arrangements and the final lease agreement did not become finalized until the end of the fiscal year. At that time, the college paid the lease for the entire year and submitted the rental expenses to the PIC for reimbursement.

In July 1996, the center moved its Cambridge location from the Regional Human Services Center to the local Job Service Office. The lease for this space did not become finalized until May 15, 1997. Again, the college made the rental payments for the entire year at the end of the fiscal year. The college then invoiced this amount to the PIC for reimbursement.

Pine Technical College

Recommendations

- *The college should have lease agreements in place prior to occupying rental space.*
- *The college should pay rent on a timely basis based on lease agreements.*
- *The college should invoice the PIC only for actual costs incurred and paid.*

PINE TECHNICAL COLLEGE
1000 4th Street ▲ Pine City, MN 55063 ▲ (320) 629-6764 ▲ (800) 521-PINE ▲ (320) 629-7603/FAX

August 29, 1997

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

Dear Mr. Nobles:

As President of Pine Technical College, I am deeply troubled by the audit findings.

Pine Technical College, under the direction of the Business Office of School District #578, had an annual financial audit for 14 years prior to the 1995 merger with MnSCU. Until the College was audited under the direction of the Office Of The Legislative Auditor, none of these findings were ever mentioned.

As President of the College, I take this audit and its findings very seriously. We have put into action a plan that will have Pine Technical College in compliance in all areas of the audit by December 31, 1997. We have already implemented or corrected 68% of the items in the audit at this time. The remaining items in the audit are being implemented through policy and procedural changes and restructuring of the College's Business and Human Resources Department.

I deeply regret these findings, but we will use these findings to make Pine Technical College one of the most fiscally responsible and sound college within the MnSCU system.

Sincerely,

Eugene W. Biever

Eugene W. Biever
President

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PINE TECHNICAL COLLEGE

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

Chapter 2. Financial Management

1. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not verify the accuracy of accounting records through key reconciliations.**

   RESPONSIBLE: Business Manager
   IMPLEMENTATION: 8/01/97

- The College has attempted to reconcile MnSCU accounting records to MAPS on a quarterly basis and has identified the differences. The College will work with the system office to correct these differences.

- The College will also reconcile the month-end bank account balances with MnSCU accounting records.

- The College will also reconcile MnSCU to MAPS on a quarterly basis.

2. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not properly record its beginning balances in MAPS at the time of the merger.**

   RESPONSIBLE: Business Manager
   IMPLEMENTATION: 11/01/97

- The College will work with the System Office to investigate this discrepancy.

Final Response 8/29/97

Chapter 3. Tuition and. Fees

3. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not establish adequate separation of duties over tuition collections.**

RESPONSIBLE: Business Manager
IMPLEMENTATION: 11/01/97

- Pine Technical College is in the process of upgrading the position in the College Bookstore to include the collection of all revenue, including tuition and fees, within the College. Our intention is to have this position filled by October 1, 1997. This individual will not have the ability to register students. The College has reviewed the access that employees have to the student information system and have restricted usage.

4. **Pine Technical College did not adequately safeguard its tuition receipts.**

RESPONSIBLE: Business Manager
IMPLEMENTATION: 11/01/97

- The College will use the cash register located in the Bookstore to record all receipts, including tuition. The College will also install MnSCU accounting and student information system software in the Bookstore to allow the Coordinator access to these systems in order to properly record accounts receivable. Checks will be restrictively endorsed at the time of receipt.

5. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not verify the accuracy and reasonableness of tuition collections.**

RESPONSIBLE: Business Manager & Dean of Student Affairs
IMPLEMENTATION: MnSCU

- It is impossible to reconcile MSIS to MnSCU exactly, but we have examined and determined that these revenues and expenditures are reasonably accurate.

6. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not promptly transfer tuition from the financial aid account into the state treasury.**

RESPONSIBLE: Business Manager & Dean of Student Affairs
IMPLEMENTATION: 9/01/96

- Fall quarter 1996 a check was received by the Business Office one week after financial aid disbursement; winter quarter a check was received within one day; and spring quarter 1997 a check was received the same day as disbursement. This is being completed on a timely basis.

7. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not require students to promptly pay their tuition.**

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 5/01/97

- The following quote from the Financial Aid Director contained in the audit report is inaccurate: ". . . setting up deferments is optional and (that) many students do not bother." Students have the choice to either pay their tuition, complete deferment papers, or apply for financial aid. The student information system will not allow the restriction of access to override a registration hold, however, the College policy is not to allow students to register if they have an outstanding balance. This policy will be enforced by the Dean of Student Services.

Chapter 4. Payroll and Personnel

8. **Pine Technical College did not verify the accuracy of payroll records.**

RESPONSIBLE: Business Manager
IMPLEMENTATION: 8/01/97

- PTC will reconcile SCUPPS to SEMA4 every pay period.

- In concept we understand the rational for quarterly reconciliation. However, there are practical problems with quarterly reconciliation. The College has consulted the System Office and we disagreed with upgrading the cost center on a quarterly basis.

9. **Pine Technical College did not adequately separate duties over personnel and payroll functions.**

   RESPONSIBLE: President
   IMPLEMENTATION: 11/01/97

- Personnel and payroll duties will be separated but the Business/Human Resources Manager will continue to be supervisor.

10. **Pine Technical College did not accurately accrue leave for its faculty.**

    RESPONSIBLE: Business Office
    IMPLEMENTATION: 11/01/97

- PTC followed the combined leave and personal leave conditions of the school district contract while awaiting the ratification of the UTCE Master Agreement in May of 1997. We will go back and recalculate all combined leave and personal leave for all UTCE employees based on the provisions of the new contract settlement for the period starting July 1, 1995.

11. **Pine Technical College incorrectly calculated an employee's early retirement pay.**

    RESPONSIBLE: Business Manager
    IMPLEMENTATION: 3/15/98

- The College will recover the amount of the early retirement overpayment from the employee's final severance payment.

Chapter 5. Supplies and Equipment

12. **The College did not maintain adequate records for fixed assets.**

    RESPONSIBLE: Business Manager
    IMPLEMENTATION: 8/01/97

- The College has recently been trained on the new MnSCU fixed asset module and is currently using this module to record its new fixed asset inventory information. Fixed asset numbers are being assigned at the time the purchase order number is issued. Prior year fixed asset information will be converted to the new fixed asset module by the MnSCU System Office. We will have all of FY97 inventories in the MnSCU system by November 1, 1997.

The College did not assign eight different inventory numbers to one single piece of equipment. The inventory record for one piece of equipment was used as a template for the inventory records of similar pieces of equipment, however, different inventory numbers were assigned to different pieces of equipment.

RESPONSIBLE: VP of Academic Affairs & Facilities
IMPLEMENTATION: 8/11/97

- The College's Maintenance Department will conduct a complete physical inventory of the College's fixed assets over $2000 on an annual basis.

13. The College did not properly account for certain meal and refreshment expenditures.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 7/01/96

- According to the Department of Employee Relations, the Mandate Reduction legislation passed during the 1996 legislative session (Chapter 398, Section 40, Executive Order 96-2) authorized delegation to MnSCU Office to regulate these special expenses. It encourages MnSCU to establish its own special expense policy. According to the MnSCU System Office, colleges should document their special expenses on the appropriate form, however, they need only keep the form internally. Pine Technical College has followed this procedure.

- The College will follow-up with grantors to determine the ability of Grant Administrators to use grant funds to pay for meal and refreshment expenditures.

- The College has implemented as of 7/01/97 the proper object codes for recording meals and refreshment purchases.

<u>Chapter 6. Financial Aid</u>

14. Pine Technical College did not adequately separate duties over financial aid transactions.

RESPONSIBLE: President
IMPLEMENTATION: 7/01/97

- Effective July 1, 1997, the College has reorganized the structure of the Financial Aid Office and has reassigned the position of the Financial Aid Assistant to the Business Office. This individual will no longer have the ability to assist with the packaging and awarding of financial aid.

  Separate individuals independent of the financial aid office will award/disburse financial aid and reconcile the financial aid accounting records.

15. Pine Technical College did not verify the accuracy and completeness of critical financial aid reconciliations.

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 7/01/96

- For FY97, records have been kept up-to-date and reports are completed on a more timely and accurate basis. The reconciliation of the student information system to the financial aid system was also completed on a more timely basis. Reconciliation of MSIS to SARA will be completed on a quarterly basis.

16. Pine Technical College did not record federal financial aid activity on the MnSCU accounting system accurately or timely.

RESPONSIBLE: Dean of Student Affairs & Business Manager
IMPLEMENTATION: 8/30/97

- Fiscal year 1997 federal student financial aid activity will be recorded in MnSCU as of 8/30/97. Revenue object codes will be used for financial aid receipts. The College will record its financial aid activity when financial aid checks are disbursed.

17. **Pine Technical College did not document satisfactory academic progress for financial aid recipients under consortium agreements.**

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 7/01/96

- Students are required as part of the consortium agreement to submit quarterly grades before financial aid can be disbursed. There are copies of transcripts in students' files for FY97. For FY98, all financial aid will be withheld until the students submit a copy of their academic transcripts to the Financial Aid Office, regardless of whether or not colleges that they attend are on the same calendar. This may delay regular financial aid disbursement to students.

18. **Pine Technical College submitted inaccurate information on federal financial aid reports.**

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 7/01/97

- The reports for FY96 have been corrected. Extra measures are in place for more accurate reporting.

19. **PRIOR FINDING NOT RESOLVED. Pine Technical College did not request federal funds to coincide with the disbursement of those funds.**

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 7/01/96

- For FY97, the Financial Aid Manager has requested funds on 21 separate occasions, allowing the College to receive funding in a more timely manner.

20. **Pine Technical College overpaid financial aid to one student.**

RESPONSIBLE: Dean of Student Affairs
IMPLEMENTATION: 8/20/97

- Northstar Guarantee Inc. was reimbursed for the amount of $258.00 that was over awarded. The student was billed on August 20, 1997 for $258.00.

Chapter 7. Bookstore Operations

21. Pine Technical College did not establish adequate separation of duties over bookstore operations.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 8/01/97

- Effective 8/01/97, an individual other than the Bookstore Clerk is closing out the cash register at the end of each day. The College will review its process of accounts receivable billing and will develop a consistent, effective process to be used which will address internal control issues. The College is no longer cashing personal checks for employees.

22. The Pine Technical College bookstore did not document voided and return transactions.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 7/01/97

- The Bookstore Coordinator will have an independent party review and approve void and return transactions.

23. The Pine Technical College bookstore allowed students to exceed the value of their financial aid vouchers.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 7/01/97

- Students were not allowed to exceed the value of their financial aid vouchers without verbal approval from the Financial Aid Manager. The Bookstore Coordinator will have the Financial Aid Office approve and document all changes to financial aid vouchers and will include cash register receipts with all vouchers returned to the Financial Aid Office.

24. Pine Technical College did not maintain adequate controls over bookstore inventory.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 8/01/97

- The College has had a physical inventory completed on an annual basis, however, the documentation has been misplaced. In July 1997, the Bookstore had a physical inventory completed by an independent party and will continue this process on an annual basis.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 10/01/97

- As stated previously, a new position, College Bookstore Coordinator, is being added to the Bookstore. The intention is that this individual will have prior retail experience and will be better able to effectively manage the College Bookstore. The current incumbent in the Bookstore is a Clerk 2 with no previous retail experience.

25. Pine Technical College did not properly handle bookstore accounts receivable.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 11/01/97

- The College is working with MnSCU's System Office to set up accounts receivable and write off policy.

  The College will record charge card fees as expenses rather than accounts receivable.

26. Pine Technical College did not verify the accuracy of bookstore financial activity recorded on the MnSCU accounting system.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 11/01/96

- The College has reconciled bookstore activity recorded in an independent accounting system with MnSCU accounting on a daily basis, however, this reconciliation has not been documented. In the future, the reconciliation will be documented.

27. Pine Technical College has not measured the financial results of its bookstore.

RESPONSIBLE: Business Manager
IMPLEMENTATION: 9/01/97

- The College will prepare a complete set of financial statements for the Bookstore on at least an annual basis. A complete set of financial statements have been prepared.

  A plan will be put in place by 10/01/97 so the bookstore will make a profit to pay back its loan.

Chapter 8. Employment and Training Center

28. Pine Technical College did not properly segregate critical financial duties in the Employment and Training Center.

RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
IMPLEMENTATION: 11/01/97

- The Business Department at PTC has been restructured to provide for proper segregation of financial duties and back up person in each area. The Business Office has been restructured; all business and human resources functions are under the supervision of the Business Manager and a plan is in place to separate duties as required by the audit.

29. The College did not properly account for and verify the accuracy of center activity within MnSCU accounting.

RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
IMPLEMENTATION: 10/01/96

- The MnSCU accounting system has been utilized for all of the Center's financial activity, including purchasing activity, since October 1996.

- A review of FY96 has been implemented to ensure that the center did not overspend.

- As of October 1996, the Center's imprest cash account has been utilized to issue support checks ONLY. The recurring expenses are entered into MnSCU accounting system via purchase orders and paid by warrant.

- Again a review has been implemented to reconcile the Center's fund balance. This will automatically happen in the future with separation of duties.

  RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
  IMPLEMENTATION: 11/01/97

- The Center will develop a policy for ensuring that transactions are posted correctly and that all costs incurred are recovered.

30. The College did not properly manage the Center's cash collections and deposits in some cases.

RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
IMPLEMENTATION: 5/15/97

- Invoices for reimbursement are completed on a monthly basis since November of 1996.

- The Employment & Training Center implemented a policy of affixing the date received on the accounts receivable checks. The checks are coded and immediately brought to the Business Office for the depositing process into the proper accounts. The data entry into the MnSCU system is completed the same day.

31. The College maintained a negative balance in the Center's local bank account for three months and invoiced overdraft charges as supplies.

RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
IMPLEMENTATION: 10/95

- On August 19, 1997 the PIC Office was notified of the overdraft charges. The PIC Office is deciding whether these overdrafts qualify as eligible cost.

32. The College did not properly account for equipment purchases.

RESPONSIBLE: Employment/Training Ctr. Mgr. & Business Mgr.
IMPLEMENTATION: 10/01/97

- The System Office and PTC agrees that the equipment is the property of PIC, we still believe that we have a responsibility to inventory the equipment while the Center is using them.

33. **The College did not properly handle client support service disbursements.**

RESPONSIBLE: Employment & Training Center Manager
IMPLEMENTATION: 8/12/97

- Effective 8/12/97, the Center will require that clients provide receipts for client support service payments. If support checks are returned to case managers for disbursement, clients will be required to provide written documentation that they have received payment.

34. **The College may have charged excess child care administrative costs to other programs.**

NOT IN VIOLATION:

- The Center has not billed child care administrative costs in excess of the amount (10%) allowed by the contract on an annual basis. Administrative costs vary from month-to-month. Some months they may exceed 10% and other months they are less than 10%, however, on an average annual basis, they do not exceed 10%. We have records that show we did not violate the contract and did not exceed the 10% for the year.

  Case managers document the time they spend on each program and billings are prepared accordingly. At times, they may be spending time gathering information that is used by more than one program. This time is divided so that administrative expenses billed to each program do not exceed the amounts allowed by the respective contracts. A review of administrative costs will be completed and, if it is determined that costs were erroneously charged to the incorrect program, the necessary adjustments will be made.

35. The Center did not have lease contracts in place for office space it occupied.

RESPONSIBLE: Employment & Training Center Manager
IMPLEMENTATION: 5/15/97

- Lease agreements were initiated but were not completed in a timely manner because of complicated inter-agency partnership. It was necessary for payment to be made to the building owners without a lease agreement in place or the Center would have been evicted. As of May 15, 1997, lease agreements are in place for all rental space. Rent payments will be made on a timely basis based on these agreements. These costs will be invoiced to PIC only after being incurred and paid.