

Red Wing/Winona Technical College

Financial Audit

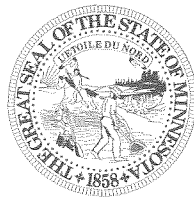
For the Period July 1, 1995 Through June 30, 1997

May 1998

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

98-35



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Mr. James Johnson, President
Red Wing/Winona Technical College

We have audited selected areas of Red Wing/Winona Technical College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included tuition and fees, customized training and fee based programs, employee payroll, administrative expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998. 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 Red Wing/Winona 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 Red Wing/Winona Technical College, and the 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 May 22, 1998.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Claudia J. Gudvangen in black ink.

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 13, 1998

Report Signed On: May 19, 1998

SUMMARY

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Red Wing/Winona Technical College

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Public Release Date: May 22, 1998

No. 98-35

Background Information

Red Wing/Winona Technical College is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged 8 state universities, 21 community colleges, and 34 technical colleges, including Red Wing/Winona Technical College, into one system of higher education. The college is one institution with two campuses located 65 miles apart. The campuses operated as two separate institutions until they merged in 1992. Red Wing/Winona Technical College's mission is to develop knowledge, attitudes, and skills through education. Mr. James Johnson is the president of the college.

Scope and Conclusions

Our audit scope included a review of general financial management controls, tuition and fees, customized training and fee based programs, employee payroll, administrative expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998.

We found that the college properly recorded its financial activities on the MnSCU and MAPS accounting systems, and that the college operated within its financial resources.

However, we found that the college did not maintain an adequate separation of duties and appropriate computer access in several of its financial areas, including cashiering, payroll, financial aid, and the bookstores. We also found that the college did not deposit and transfer certain receipts in a timely manner. In addition, the college used federal Carl Perkins funds for certain unallowable expenditures. Finally, the college did not have a formal contract with Winona State University for services provided by the university to the college. The lack of an agreement may have led to certain college account reconciliations not being performed.

In its response to the audit report, the college agreed with most of the findings and is taking corrective actions. However, the college stated that it believes the use of Carl Perkins funds to pay for equity excellence awards was within the scope of the federal grant. It also does not believe that it is feasible to deposit customized training receipts before the first day of class.

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Audit Participation

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

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Sonya Hill, CPA	Auditor
Susan O'Connell	Auditor
Jason Stauffenecker	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Red Wing/Winona Technical College and the MnSCU system office at the exit conference held on May 8, 1998:

MnSCU System Office:

Laura King	Vice Chancellor - Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
John Asmussen	Executive Director for MnSCU Internal Audit
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Red Wing/Winona Technical College:

James Johnson	President
Blake Pickart	Dean of Finance

Chapter 1. Introduction

Red Wing/Winona Technical College is a two year college whose mission is to develop knowledge, attitudes, and skills through education. The college is one institution with two geographically separated campuses. The Red Wing and Winona campuses operated as two separate institutions until they merged in 1992. The campuses are located approximately 65 miles apart. On July 1, 1995, Red Wing/Winona Technical College became part of the newly formed Minnesota State Colleges and Universities (MnSCU). Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision 1, authorized the transfer of real property, personal property, improvements, and attachments related to technical colleges over to the state.

The college offers more than 70 degrees, certificates, and diplomas. The college also offers customized educational options on each of its campuses in the areas of business, trade, health, and marketing. The full-time equivalent for the students at the college is 697 for the Winona campus and 457 for the Red Wing campus. James Johnson served as interim president during our audit period, and he became the permanent college president on July 1, 1997.

Each campus has an affiliated campus foundation. Each foundation functions primarily to provide student scholarships and support specified campus activities. The college has a formal signed contract with the Winona Technical College Foundation that outlines the duties and responsibilities of both parties. As of April 1, 1998, the college was still negotiating a contract with the Red Wing Technical College Foundation. The Winona and Red Wing campuses each provide administrative support to their respective foundation.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for fiscal year 1997.

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Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 1997

	General <u>Fund</u>	Special Revenue <u>Funds</u>	Enterprise <u>Funds</u>
Beginning Fund Balance	\$ 340,325	\$ 33,617	\$ 69,226
State Appropriation	<u>6,267,646</u>	<u>0</u>	<u>0</u>
Revenues			
Tuition and fees	\$2,764,588	\$ 85,143	\$ 5,102
Sale of goods	375,640	0	445,932
Grants	0	1,234,797	0
Other	166,079	0	60,896
Transfers in	<u>0</u>	<u>20,505</u>	<u>0</u>
Subtotal Revenues	<u>\$3,306,307</u>	<u>\$1,340,445</u>	<u>\$ 511,930</u>
Total Resources	<u>\$9,914,278</u>	<u>\$1,374,062</u>	<u>\$ 581,156</u>
Expenditures			
Employee payroll	\$5,496,198	\$ 263,006	\$ 54,389
Purchased services	284,860	11,812	15,538
Utilities	282,387	352	0
Supplies	475,157	37,631	330,681
Equipment	331,874	28,656	0
Repairs and betterments	270,495	0	0
Grants	1,819	821,037	0
Other	622,304	119,046	1,332
Transfers out	<u>170,340</u>	<u>20,505</u>	<u>0</u>
Total Expenditures	<u>\$7,935,434</u>	<u>\$1,302,045</u>	<u>\$401,940</u>
Ending Fund Balance	<u>\$1,978,844</u>	<u>\$ 72,017</u>	<u>\$179,216</u>

Note: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activity not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1997, compensated absence liability was estimated to be about \$425,000.

Source: MnSCU General Ledger Accounting System as of January 6, 1998.

Chapter 2. Financial Management

Chapter Conclusions

We found that the college properly recorded its financial activities on the MnSCU and MAPS accounting systems, and that the college operated within its financial resources.

However, the college did not transfer tuition and fee receipts to the state treasury in a timely manner. This caused delays in posting to the accounting records and contributed to insufficient collateral for the college's local bank account.

Also, the college did not have a formal contract with Winona State University for services provided by the university to the college. The lack of an agreement may have led to certain key MnSCU to MAPS reconciliations not being performed.

Red Wing/Winona Technical College operates under the direction of one president, James Johnson. The college also employs one business manager, one financial aid director, and one personnel director who each serve both campuses. Because of this, financial processes on the two campuses are generally similar.

The college maintains three bank accounts. It has separate state depository accounts in both Red Wing and Winona. The college also uses one local bank account in Winona to administer financial aid, enterprise, and agency activities for both campuses. The college performs monthly reconciliations for each of its bank accounts.

Red Wing/Winona Technical College records local bank activity as well as state treasury financial activity on the MnSCU accounting system. MnSCU accounting posts summary information to the state's Minnesota Accounting and Procurement System (MAPS) through a system interface. MAPS generates state treasury warrants as a result of the information derived from the system interface. In addition, the college uses the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage payroll and personnel functions for its employees. The information from SCUPPS also feeds into the state's payroll/personnel system, the State Employee Management System (SEMA4).

Winona State University provides certain administrative functions for Red Wing/Winona Technical College. The university enters the college's detailed payroll transactions and also performs MnSCU to MAPS reconciliations for nonpayroll transactions in the college's General Fund account. For payroll transaction, the technical college completes the MnSCU to MAPS reconciliations.

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Audit Objectives and Methodology

The primary objectives in assessing overall Red Wing/Winona Technical College's financial management were to answer the following questions:

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

To answer these questions, we interviewed college staff to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the individual program areas we audited. We reviewed the transactions posted to MnSCU accounting to determine if the college properly recorded revenue and expenditure transactions for both state treasury and local bank account activities. We also ensured that the college reconciled its subsidiary ledgers to MnSCU accounting. Finally, we reviewed the reconciliations between MnSCU and MAPS transactions and between MnSCU accounting and the monthly bank statements.

Budgetary Controls

The MnSCU system office provides funding to Red Wing/Winona Technical College based upon an allocation formula. The college receives one allocation for the entire institution. The college uses this allocation amount, as well as its tuition revenue estimates, to determine the basis for its annual budget. In order to budget expenditures, the college reviews its prior year expenditures and its anticipated needs for the upcoming year.

The college uses the MnSCU accounting system to monitor its revenues and expenditures throughout the year. The business manager sets up the college budget on MnSCU accounting in individual cost centers. To monitor individual programs and cost center budgets, the business manager and program support staff review monthly budgetary summary reports and detail transaction reports. Business office employees initiate any necessary budget modifications or transfers among cost centers.

Conclusions

Red Wing/Winona Technical College designed and implemented internal controls to provide reasonable assurance that it properly recorded financial activities on the MnSCU and MAPS accounting systems and that it operated within available financial resources in compliance with applicable legal provisions and management's authorization.

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Red Wing/Winona Technical College designed and implemented internal controls to provide reasonable assurance that money in its local bank account was accurately reported in the accounting records and in compliance with management's authorization. However, as noted below, we found that the college did not transfer tuition and fee receipts from its local bank account to the state treasury in a timely manner. This caused delays in posting to the accounting records and collateral deficiencies in the local bank account.

We also noted that the college did not complete certain key MAPS to MnSCU reconciliations. This may have been caused by the lack of a written agreement with Winona State University, which performs key reconciliations for Red Wing/Winona Technical College.

1. Red Wing/Winona Technical College did not transfer certain tuition receipts to the state treasury promptly.

The college did not transfer the tuition and fees portion of the financial aid awards to the state treasury on the tuition due date. Since the college did not record financial aid disbursements and the state tuition revenue on the MnSCU accounting system until it transferred the funds from the local account to the state treasury, MnSCU accounting did not always present accurate information.

The college typically drew down federal funds three days before the financial aid disbursement date (approximately the fifteenth day of the quarter). On the disbursement date, the college credited the students' accounts for tuition, fees, and other charges and disbursed the remaining portion to the students. However, the college did not transfer tuition amounts to the state treasury on the disbursement date. In fiscal year 1996, the college made only two transfers of financial aid to the state treasury. As can be seen in Table 2-1, although the college made quarterly transfers in fiscal year 1997, it still waited an average of 36 days before transferring the tuition receipts to the state treasury.

Table 2-1
Calculation of Financial Aid Transfer Delays

<u>Quarter</u>	<u>Financial Aid Disbursement Date</u>	<u>Transfer Date</u>	<u>Number of Days Delay (1)</u>	<u>Transfer Amount</u>
Fall 1996	September 24, 1996	October 23, 1996	29	\$277,333
Winter 1997	December 19, 1996	January 24, 1997	36	\$317,041
Spring 1997	April 7, 1997	May 19, 1997 (2)	41	\$324,713

(1) The number of days delay column also represents the period during which the MnSCU accounting records did not include these financial aid disbursements or tuition and fee revenue.

(2) The college also made a final clean-up transfer of about \$118,000 on September 11, 1997.

Source: Auditor prepared from MnSCU Accounting System and college records.

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Recommendations

- *Red Wing/Winona Technical College should promptly transfer financial aid awards credited to the students' tuition and fees into the state treasury.*
- *The college should promptly record financial aid disbursements and tuition and fee revenue in MnSCU accounting.*

2. Red Wing/Winona Technical College did not maintain sufficient collateral for its local bank account.

The college did not maintain adequate collateral on its local bank account. We determined that the bank balance exceeded the amount of collateral pledged in 10 of 18 months we reviewed. It appears that the untimely transfer of tuition and fees to the state treasury cited in Finding 1 contributed to some of the unsecured balances.

In order for the college's money to be properly protected, the college should ensure that the bank provides sufficient collateral. Minnesota Statutes require local government entities to establish collateral on their accounts equal to "at least ten percent more than the amount on deposit plus accrued interest at the close of the business day." The college should require similar collateral levels on its deposits.

Recommendation

- *Red Wing/Winona Technical College should ensure it maintains collateral sufficient for cash balances in the local account.*

3. Red Wing/Winona Technical College did not have a written agreement with Winona State University for certain administrative duties it performed for the college.

Red Wing/Winona Technical College did not have a written agreement with Winona State University for certain administrative duties it performed for the college. The lack of an agreement may have led to certain key MnSCU to MAPS reconciliations not being performed.

Winona State University provides certain administrative functions for Red Wing/Winona Technical College. This mutually beneficial relationship allows the larger university to provide expertise, experience, and administrative duties to the smaller technical college.

During our review, we noted that the college did not prepare the MnSCU to MAPS reconciliations for the repair and betterment, and the state and federal grant appropriation accounts. The technical college believed that the university had prepared these reconciliations along with the other reconciliations. These reconciliations are necessary to detect any transactions that the college did not record consistently on the two systems.

Without a contract or memorandum of understanding, the university's responsibilities and its measurement of compensation and payment schedule were unclear. During fiscal year 1997, the

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university charged the college a flat rate of \$20 per hour for its work. The university invoiced the college only once for services rendered during fiscal year 1997, totaling \$6,000.

Recommendations

- *Red Wing/Winona Technical College and Winona State University should have a written contract or memorandum of understanding outlining the responsibilities of each party, including compensation and billing arrangements.*
- *Red Wing/Winona Technical College should verify that MnSCU to MAPS reconciliations are performed for all of its accounts.*

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Chapter 3. Tuition, Fees, and Bookstore Revenue

Chapter Conclusions

We found that the college accurately reported tuition, fees, and bookstore revenue in the accounting records. However, we noted the following weaknesses in the college's procedures:

- The college did not adequately segregate certain cashiering functions.*
- The college did not adequately control voided and refund transactions.*
- The college did not properly manage certain aspects of its accounts receivable process.*

For the items tested, the college complied with applicable finance-related legal provisions, except that the Red Wing campus did not deposit its receipts promptly, as required by statute.

Red Wing/Winona Technical College collects tuition and fees at each campus. The college also operates a bookstore on each campus. Each bookstore shares its space with the campus cashier. Each campus collects, deposits, and accounts for tuition, fees, and bookstore revenue in a fairly similar manner. Chapter 4 specifically discusses customized training and fee based program revenues. Chapter 8 discusses the expenditure side of the bookstore operations.

Audit Objectives and Methodology

The primary objectives of our review of tuition, fees, and bookstore revenue were to answer the following questions:

- Did Red Wing/Winona Technical College design and implement internal controls to provide reasonable assurance that tuition, fees, and bookstore revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did Red Wing/Winona Technical College comply with applicable legal provisions?

To meet these objectives, we interviewed Red Wing/Winona Technical College employees to gain an understanding of controls over tuition, fees and bookstore receipts. We reviewed student registration and account receivable records and MnSCU accounting records to determine if Red Wing/Winona Technical College charged students appropriate rates, collected earned revenue, and properly recorded revenue transactions in MnSCU accounting. We also reviewed bank

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deposit documentation to determine if Red Wing/Winona Technical College complied with applicable legal provisions. Finally, we reviewed collection activity to determine if Red Wing/Winona Technical College appropriately pursued outstanding accounts receivable.

Tuition and Fee Revenue

For fiscal year 1996, the college charged a resident student \$40 per credit plus miscellaneous fees. The tuition rate increased to \$41.60 per credit for fiscal year 1997. The college collected tuition and fee revenue totaling \$2,382,910 and \$2,616,646 in fiscal years 1996 and 1997, respectively.

Red Wing/Winona Technical College requires students to pay all tuition and fee charges by the first day of class. The college also places holds on student records for outstanding balances. These holds prevent students from registering in future quarters until they have paid outstanding balances due.

The college records registrations, billings, and collections on the Minnesota Multi-Campus Student Information System (MSIS). MSIS records each transaction to a specific academic quarter. Because of this, the system cannot produce a comprehensive list of all outstanding accounts receivable at any point in time. Rather, MSIS produces an "oweslist" report that shows the amounts owed by each student for a specific quarter. The college uses the "oweslist" reports to create its own comprehensive list of outstanding accounts receivable. However, that method is very labor intensive for the college. In the near future, MnSCU will be replacing MSIS with a new systemwide accounts receivable system.

The college follows up on past due account receivable balances and periodically mails bills to students. Each campus also uses one or more collection agencies to assist it in collecting outstanding balances. Currently, the college is working with Minnesota Collection Enterprise (MCE) to transfer outstanding accounts to them for collection. This will reduce the amount of time the college devotes to collecting past due accounts.

Bookstore Revenue

The college operates a bookstore on each campus. Both bookstores sell textbooks and miscellaneous supplies to students. The Red Wing bookstore also sells some clothing with the campus logo.

The Winona campus bookstore has two cash registers that are used to record tuition collections and bookstore sales. During our audit period, the Winona bookstore manager routinely closed out one of the cash registers, counted the day's revenue, and gave the revenue and supporting documentation to the tuition cashier, who prepared the bank deposit and recorded the activity on the MnSCU accounting system.

The Red Wing campus only has one cash register to collect both bookstore receipts and the tuition and fee receipts. The Red Wing campus cashier collected and reconciled the day's receipts, deposited the money into the local bank, and forwarded the accounting information to the Winona campus where it was entered into the MnSCU accounting records.

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Conclusions

We found that the college accurately reported tuition, fees, and bookstore revenue in the accounting records. However, we found that the college did not adequately separate certain key functions and did not properly document or support void or refund transactions. Finally, we noted several weaknesses with the college's accounts receivable process. For the items tested, the college complied with applicable finance-related legal provisions, except that the Red Wing campus did not deposit its receipts promptly, as required by statute.

4. Red Wing/Winona Technical College did not adequately separate key duties in the bookstore/cashier operations.

The college did not separate key duties in its bookstore/cashier operations. At Winona, the bookstore manager and the cashier each operated their own cash register. However, students could go to either cash register to conduct business regardless if the student was there to pay tuition and fees or to purchase a textbook. At the end of the day, each person closed out their own cash register, counted cash, resolved discrepancies, and prepared a daily summary report. The cashier would then accumulate all of the receipts and supporting documentation, prepare the bank deposit slip, and enter the transactions onto the MnSCU accounting system. The campus did not perform any independent verification of the work performed. The college could strengthen controls if the employees would close-out each other's cash register and if another business office employee would periodically review and approve the deposit documentation.

The Red Wing campus only employed one individual to serve as the bookstore manager and function as the cashier. The employee processed the day's receipts and forwarded the information to Winona for document entry. The campus could improve controls by involving another person in the process at Red Wing. The college could also perform some review and verification of receipts at the Winona campus as part of its input process.

Without adequate separation of duties, the college faces a high risk that material errors or irregularities could occur and not be detected. The college should review the bookstore and cashier operations and reassign duties or provide sufficient oversight over the receipt collection process.

Recommendation

- *The college should establish adequate separation of duties over the bookstore and cashier operations.*

5. Red Wing/Winona Technical College did not control voided or refund transactions in its cashier operations.

The college did not adequately document its use of voided or refund transactions. It also used cash register voids to increase its change fund and to correct non-sufficient funds (NSF) checks returned by the bank. Voided and refund transactions represent sensitive transactions because they decrease cash collections. The lack of documentation and independent review of these transactions increases the risk that voided or refund transactions could conceal a theft of funds.

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The college did not control voided transactions at either campus. Occasionally, cashiers voided incorrect transactions on the cash registers and entered corrected transactions. Often, the voided transaction was followed immediately by a new transaction. However, in some cases, voided transactions did not appear in sequence with the corrected transactions. The college did not properly document these transactions by including void slips explaining the circumstances surrounding the transactions. Also, the college did not have an independent person verify the legitimacy of the voided transactions.

The college also used voided transactions to increase its cash register change funds during peak times of the year. Both bookstores experienced increased activity at the beginning of each quarter. To provide sufficient cash for these busy periods, the employee entered a void at the end of the day for a given amount, such as \$500. The employee completed the close-out process and left the additional \$500 in the register with the normal change fund to provide additional change. After the employee finished the close-out procedure, the employee entered the \$500 as the first transaction for the following day, replacing the void as incoming receipts. The employee repeated this process for several days until the activity returned to its normal level, when the employee redeposited the additional change fund. The college should have written a check from its imprest checking account and used the proceeds to increase its change fund, rather than using a series of voided transactions.

Finally, the Winona campus used void transactions to cover NSF checks returned by the bank. The campus accepted personal checks from its students to satisfy their tuition bills or purchase items from the bookstore. Occasionally, the bank returned a check because the issuer did not have sufficient funds in their account to cover the check. The campus voided a transaction on the cash register equal to the amount of the check, instead of filling out the required state forms to reverse the transaction on the accounting system. The campus should use the state's procedures to properly account for the NSF checks instead of voiding transactions to cover the loss.

The college also did not properly document refund transactions. In some cases, students dropped classes or returned textbooks. If sufficient funds existed in the cash register, the cashier gave cash refunds to students. Refund transactions reduce cash in the same manner as voided transactions do and therefore pose the same risks. Like the voided transactions, the cashier recorded the transactions and included them with the daily close-out totals. Again, the college did not document the circumstances surrounding the refund nor require students to sign for their refunds. The college should consider issuing refund checks instead of giving cash refunds to students. The checks would reduce the burden on the cash register's tight money supply and provide a better audit trail.

Recommendations

- *The college should document its voided and refund transactions. Someone independent of the transactions should review and approve the transactions.*
- *The college should only void transactions it entered erroneously. The college should not void transactions to increase its change funds or to cover checks returned by the bank for insufficient funds.*

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6. The Red Wing campus did not deposit its tuition and bookstore receipts promptly.

The campus did not deposit its receipts timely. During our testing of deposits, we noted that the campus did not make daily deposits. We analyzed two separate months in fiscal year 1997 (October 1996 and March 1997) to determine the extent of the problem. Our analysis disclosed that the campus made eight deposits in October that averaged \$13,800 each. The campus made nine deposits in March that averaged \$9,400 each. Minn. Stat. Section 16A.275 required that agencies deposit receipts daily if they totaled \$250. The delay increased the risk that the receipts might be lost or stolen.

Recommendation

- *Red Wing/Winona Technical College should deposit its receipts timely in accordance with statutory requirements.*

7. Red Wing/Winona Technical College did not properly manage its accounts receivable.

The college did not properly separate duties over accounts receivable. It also did not periodically write-off old outstanding past due accounts. As of December 31, 1997, the accounts receivable balance for tuition, fees, and other charges was \$56,596 for the Winona campus and \$76,886 for the Red Wing campus.

The college had an inadequate separation of duties in the accounts receivable process. The cashier at each campus had complete control over follow-up and collection activity. The employees maintained the accounts receivable records, contacted the students about repayment, placed and removed holds from the students' records, turned the past due accounts over to a collection agency, and deposited and recorded any amounts collected. By allowing one employee complete control of the process, the college increased its risk that errors or irregularities could occur and not be detected.

In addition, the college has not written off uncollectible account balances for several years. Our review showed that the receivable balances included past due accounts going back to 1991. By writing off old uncollectible accounts, the college could maximize its collection efforts by focusing on accounts with the greatest collection potential.

Recommendations

- *The college should assign more than one person to the accounts receivable collection process.*
- *The college should work with the system office to remove old, uncollectible account balances from its records.*

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Chapter 4. Customized Training and Fee Based Programs

Chapter Conclusions

We noted significant control weaknesses over Red Wing/Winona Technical College's customized training programs. We found that the college did not adequately safeguard and promptly deposit its customized training receipts.

However, for the fee based programs, the college generally designed and implemented internal controls to provide reasonable assurance that its revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we identified one control weakness within the Winona campus cosmetology department.

In addition to traditional classroom instruction, Red Wing/Winona Technical College offers courses that it targets to a specific company or sector of the population. The college works with the business community to establish customized training courses.

In fee based programs, the college provides students an opportunity to gain work experience in their own field of study as they progress through their coursework. The college offers a variety of fee based programs, such as instrument repair and cosmetology, in which members of the community can use and pay for services provided by students.

Audit Objectives and Methodology

We focused our review of the customized training and fee based programs on the following questions:

- Did Red Wing/Winona Technical college design and implement internal controls to provide reasonable assurance that customized training and fee based program revenues were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did Red Wing/Winona Technical College deposit customized training and fee based program revenue timely?

To meet these objectives, we interviewed college personnel and gained an understanding of the processes and controls over customized training and fee based programs. We tested specific items for proper documentation and compliance with specific finance-related legal compliance provisions.

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Customized Training Programs

Customized training classes provide occupational training in various disciplines, including business, trade, marketing, and health. Revenues collected from the college's customized training programs fluctuate based on the number of requests the college receives to provide this specialized training. The college collected \$773,534 in fiscal year 1996 and \$559,252 in fiscal year 1997 from its customized training programs.

The college offers customized training instruction to both businesses and individuals. Businesses can request classes that meet the specific needs of its employees. Individuals can also register for customized training classes that the college offers to the general public. Each campus operates its own customized training office, with one college dean who oversees both campus programs. The college determines the cost of classes for businesses after it clarifies the businesses' needs. The customized training department draws up a contract and both the company and the college dean approve it. The contract outlines the class offered, the time, dates, instructor, and cost of the program. The customized training staff invoices the company after the class has ended.

Fee Based Programs

Red Wing/Winona Technical College offers fee based programs to build student technical skills. Each campus offers separate fee based programs in which members of the community can use and pay for services provided by technical college students. At the Winona campus, fee based programs include cosmetology, as well as auto body and auto repair. The Red Wing campus has a carpentry program, in which students build a complete residential home during the program, and two musical instrument repair programs.

Conclusions

We noted significant control weaknesses over Red Wing/Winona Technical College's customized training programs. As further explained below, we found that the college did not adequately safeguard and promptly deposit its customized training receipts.

However, for the fee based programs, the college generally designed and implemented internal controls to provide reasonable assurance that its revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we did find that the cosmetology department did not reconcile its receipts to deposit records to verify that all receipts had been properly deposited.

8. Red Wing/Winona Technical College did not adequately safeguard its customized training program receipts.

We found several weaknesses in the college's procedures relating to customized training receipts. The Red Wing campus did not make a list of incoming receipts and restrictively endorse checks for customized training immediately. The Winona campus did not document voided transactions

Red Wing/Winona Technical College

on its customized training cash register. Finally, the college did not deposit customized training receipts promptly.

The Red Wing campus did not immediately record and restrictively endorse incoming customized training checks. Rather, it put the receipts into an envelope and took them to the bookstore for deposit in the bank. The cashier took the receipts intact, restrictively endorsed the checks, and deposited them on behalf of customized training. The cashier did not ring the receipts through the cash register or perform any further review or verification of the amounts received.

The Winona campus did not document voided cash register transactions. The Winona customized training office rang all of its receipts through its customized training cash register. However, the customized training office did not support its cash register voids with appropriate documentation showing the reason for the void. Also, no other campus employee reviewed the daily financial activity on the customized training cash register to determine if the voided transactions were proper. The lack of proper control over voided transactions increases the risk that improprieties could occur and not be detected.

Finally, the college did not deposit its customized training receipts promptly. We especially noted this for open enrollment classes where students are required to pay their fees within five days of registration. The college routinely held these receipts until it knew that it had sufficient enrollment to conduct the class. If enrollment was not sufficient, the campus canceled the course and returned checks to the students rather than processing a refund through the business office. Minn. Stat. Section 16A.275 requires that agencies deposit receipts daily if they total or exceed \$250.

Recommendations

- *The Red Wing campus should immediately record and restrictively endorse all incoming customized training receipts.*
- *The Winona campus should use void slips to document the reason for any voids rung through the register. Someone independent of the process should review and approve these void slips.*
- *Red Wing/Winona Technical College should deposit its receipts timely in accordance with statutory requirements.*

9. The cosmetology department did not reconcile its receipts to subsequent deposits.

The Winona campus cosmetology department did not reconcile its receipts from the sale of services and retail products to cashier records. Students collected receipts from customers and rang them through a cash register located in the classroom. The students closed out the register, recorded the daily receipts in their book, and brought the receipts to the bookstore where the cashier deposited them with other receipts. The cashier also entered the transactions into MnSCU accounting on behalf of the cosmetology department. However, the cashier did not give the cosmetology department a receipt form confirming the amount of money it deposited. As a result, the department could not verify that the amount it collected equaled the amount deposited and credited to its account.

Red Wing/Winona Technical College

Recommendations

- *The cosmetology department should reconcile the receipts it collects to the amount deposited by the bookstore.*
- *The cashier should provide the cosmetology department with receipt forms confirming the amounts of money it deposited.*

Chapter 5. Employee Payroll

Chapter Conclusions

Red Wing/Winona Technical College designed and implemented internal controls that provided reasonable assurance that employee payroll transactions were accurately recorded in the accounting records and complied with applicable legal provisions and management's authorization. However, we noted that one Winona State University payroll staff person had inappropriate security access to certain college personnel functions.

Employee payroll represents the largest expenditure for Red Wing/Winona Technical College. The college had payroll costs of \$6,312,001 and \$5,812,597 for fiscal years 1996 and 1997, respectively. The payroll costs represented 56 percent of the college's total expenditures for the two year period.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?
- Did the college's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To answer these questions, we made inquiries of the college's staff to gain an understanding of the payroll and personnel process. We tested a sample of payroll transactions to ensure that there was proper documentation for those transactions. We reviewed compensation amounts paid to employees and ensured that they agreed with amounts recorded on the State Colleges and Universities Personnel/Payroll System (SCUPPS). We also reviewed large severance payouts to determine if the payments appeared accurate and reasonable.

The institution employs approximately 304 staff, consisting of 116 full-time and part-time faculty, 66 classified and unclassified staff, and 122 other support staff. The college's employees belong to various compensation plans including:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Minnesota Association of Professional Employees (MAPE)
- Middle Management Association (MMA)
- Excluded Administrators Plan
- Minnesota Nurses Association (MNA)

Red Wing/Winona Technical College

- Commissioner's Plan
- United Technical College Educators Plan (UTCE)

Employees represented by the United Technical College Educators (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 provide faculty compensation based on the former school district contract until the new agreement was ratified. The college adjusted the faculty salaries from the school district contract levels to the final wages negotiated with UTCE, retroactive to July 1, 1995.

During fiscal year 1996 and part of fiscal year 1997, the college used the state's personnel/payroll system (PPS) to process payroll information. PPS contained pay rate information and calculated the employee payroll amount. The college converted to the state's new payroll system, SEMA4 in October 1996. The college used the State Colleges and Universities Personnel/Payroll System (SCUPPS) throughout the audit period. SCUPPS stores pay rate information and bargaining agreement history.

The college's human resource staff reside at the Red Wing campus. The human resource section maintains personnel and payroll documentation such as staff appointments, assignments in SCUPPS, and employee timesheets. Winona State University provides one of its payroll employees to enter college payroll data into SEMA4.

Conclusions

We found that Red Wing/Winona Technical College designed and implemented controls over the personnel/payroll function to provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, as noted below, we found that the payroll input person at Winona State University had inappropriate security access to certain SCUPPS functions.

10. Red Wing/Winona Technical College did not adequately restrict one person's security clearances in SCUPPS.

The college did not adequately restrict computer security clearances for payroll work performed by a Winona State University employee. The Winona State employee entered the college's payroll into SEMA4 each pay period and performed several verifications to ensure that information on SCUPPS agreed with the information recorded on SEMA4. This person also verified that other nonroutine transactions were processed through SEMA4. To perform those duties, the employee needed access to various SCUPPS reports. However, in granting the employee the necessary access, the college also granted the employee update access to other functions on SCUPPS not needed to perform the job responsibilities. Granting this type of access to SCUPPS clearances could permit the employee to perform unauthorized personnel transactions.

Recommendation

- *The college should work with the system office to resolve the security access problems within SCUPPS.*

Chapter 6. Administrative Expenditures

Chapter Conclusions

Red Wing/Winona Technical College designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records in compliance with applicable legal provisions and management's authorization. However, the college did not complete an inventory count and properly record fixed assets on the MnSCU accounting system.

Red Wing/Winona Technical College's nonpayroll administrative expenditures included payments for purchased services, supplies and equipment, utilities, and repairs and betterments. To purchase goods or services, college departments electronically submit purchase requisitions to the college business manager. The business manager verifies that funds are available in the appropriate cost center for the purchase, approves the requisition, and forwards it to the purchasing department. The business office creates a purchase order and sends it to the vendor. The business office also sets up an encumbrance for the purchase. The business office receives the invoice and matches it to the purchase requisition and purchase order. The business office sends a copy of the purchase order to the department receiving the goods or services, where the department verifies their receipt of the goods or services and authorizes the payment. Business office personnel process the payment on the MnSCU accounting system.

Audit Objectives and Methodology

The primary objectives of our review of administrative expenditures were as follows:

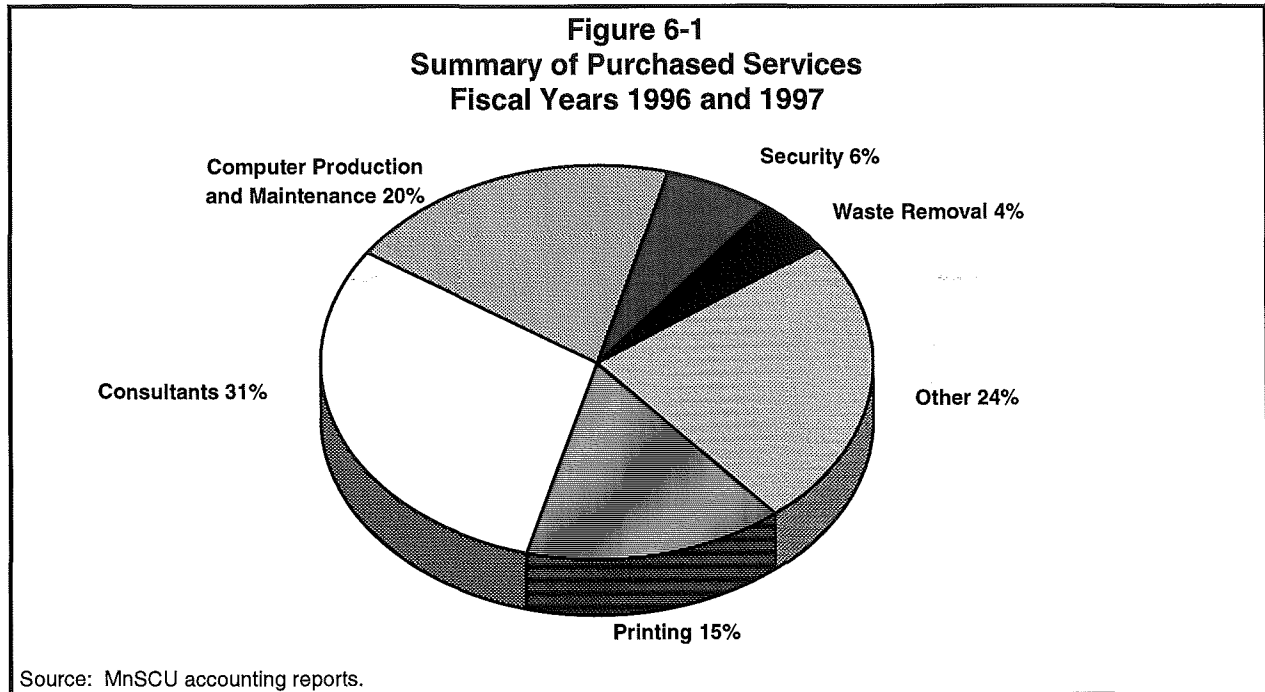
- Did Red Wing/Winona Technical College design and implement internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, in compliance with applicable legal provisions and management's authorization?
- Did Red Wing/Winona Technical College comply with applicable legal provisions for the items tested?

To meet these objectives, we interviewed Red Wing/Winona Technical College employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded expenditures. We also reviewed the sample of expenditures to determine if Red Wing/Winona Technical College complied with applicable legal provisions. Finally, we reviewed the college's process to record and track fixed assets.

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Purchased Services

Red Wing/Winona Technical College paid \$694,366 for purchased services during fiscal years 1996 and 1997. Purchased service expenditures include services such as printing, consulting, and computer support. Figure 6-1 shows purchased services expenditures by category.



Supplies and Equipment

Red Wing/Winona Technical College paid a total of \$612,772 for supplies and \$967,214 for equipment during fiscal years 1996 and 1997. MnSCU defines equipment as all machinery, vehicles, instruments, apparatuses, furniture, and other articles that meet all of the following requirements:

- has a unit cost of \$2000 or more,
- has a useful life of more than one year, and
- retains its identity for inventory purposes.

Utilities

Red Wing/Winona Technical College paid \$245,141 for utilities during fiscal year 1996 and \$283,531 in fiscal year 1997. Table 6-1 shows utility expenditures by category.

Red Wing/Winona Technical College

Table 6-1
Summary of Utilities
Fiscal Years 1996 and 1997

<u>Utility Category</u>	<u>1996</u>	<u>1997</u>
Electricity service	\$162,173	\$169,897
Fuel oil service	71,053	88,002
Gasoline service	0	12,624
Other utility services	<u>11,915</u>	<u>13,008</u>
Total	<u>\$245,141</u>	<u>\$283,531</u>

Source: MnSCU accounting records.

Repairs and Betterments

Red Wing /Winona Technical College incurred \$565,000 worth of repair and betterment expenditures during fiscal years 1996 and 1997. Of that amount, the college spent \$326,196 from its own institution funds. The MnSCU system office allocated the remaining amount to the college to fund special capital projects.

In fiscal years 1996 and 1997, the system office used an allocation process to provide colleges with a basic level of funding for repairs and betterments. The system office disbursed one-half of its repair and betterment allocation directly to the colleges as part of its allocation process. The college used the funds it received from the allocation to pay for smaller projects and general repair and maintenance activities.

The system office also awarded repair and betterment funds to colleges based on specific capital projects it approved for the year. Colleges submitted project requests to the system office for funding. The system office approved certain of the projects on a resource available basis and tracked the projects through specific account codes. During our audit period, the Winona campus received funding for some larger capital projects, including replacement of a spray paint booth, lecture hall remodeling, and electronics lab and office upgrades. The Red Wing campus also received funds for some projects, such as improvement of air quality in a lab.

Conclusions

We concluded that Red Wing/Winona Technical College designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, in compliance with applicable legal provisions and management's authorization. We also concluded that Red Wing/Winona Technical College complied with applicable legal provisions. However, as discussed below, we found that Red Wing/Winona Technical College did not complete a physical inventory count nor record the fixed assets on the MnSCU accounting system.

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11. Red Wing/Winona Technical College did not adequately account for fixed assets on the MnSCU accounting system.

Red Wing/Winona Technical College did not complete a physical inventory of its fixed assets, nor did it record the fixed assets on the MnSCU system. MnSCU policy requires institutions to develop procedures to record all fixed assets over \$2000 on the MnSCU accounting system. Periodic physical inventory counts and accurate records are necessary in order to properly account for and safeguard inventory. During our audit period, the college was in the process of taking a complete inventory count, but had not yet recorded its new and existing assets onto the accounting system.

Recommendation

- *Red Wing/Winona Technical College should conduct a physical inventory count and record fixed assets on the MnSCU accounting system.*

Chapter 7. Student Financial Aid and Other Federal Grants

Chapter Conclusions

Red Wing/Winona Technical College designed and implemented internal controls to provide reasonable assurance that it managed state and federal student financial aid programs in compliance with program requirements. However, we found that financial aid staff shared logonIDs and passwords to access the financial aid system. We found that, except for the issue of timely tuition transfers discussed in Finding 1, the college properly recorded the financial aid activities in the MnSCU accounting system. For the items tested, the college complied with the applicable legal requirements for cash management and federal reporting.

Red Wing/Winona Technical College generally designed and implemented internal controls to provide reasonable assurance that federal Carl Perkins grant expenditures were accurately reported in the accounting records and adequately safeguarded. However, we found that the college disbursed grant funds for certain unallowable uses.

Red Wing/Winona Technical College participated in several federal grant programs administered by the United States Department of Education and some state administered grant programs. Table 7-1 highlights the expenditures from these grant programs.

Table 7-1
Student Financial Aid and Other Federal Grant Program Expenditures
Fiscal Year Ended June 30, 1997

<u>CFDA Number</u>	<u>Program</u>	<u>Total</u>
84.032	Federal Family Education Loan (FFEL)	\$ 1,471,376
84.063	Federal Pell Grants	767,793
84.048	Vocational and Educational Basic Grant (Carl D. Perkins)	326,762
84.033	Federal College Work-Study (FWS)	75,881
84.007	Federal Supplemental Education Opportunity Grant (SEOG)	28,748
	State Basic Grant	268,211

Source: June 30, 1997, FISAP and Red Wing/Winona Technical College's Accounting Records.

Red Wing/Winona Technical College

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to the federal Carl Perkins Grant for the period from July 1, 1995, through June 30, 1997, and for the federal financial aid programs as of December 31, 1997:

- Did the college design and implement internal controls to provide reasonable assurance that disbursements for financial aid and the federal Carl Perkins program were properly authorized for allowable purposes and accurately reported in the accounting records?
- Did the college comply with applicable legal requirements over the management of federal cash and accurate reporting of financial aid and grant activity?
- Did the college design controls to ensure that it requested federal program funds timely and based on immediate costs?

To address these objectives, we evaluated and tested controls over compliance for determining student eligibility and packaging, awarding, and disbursing state and federal financial aid funds. We evaluated controls and tested compliance with federal requirements governing federal cash management and reporting federal expenditures. We tested a sample of federal Carl Perkins disbursements to determine whether they complied with the applicable federal regulations.

Student Financial Aid

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

Students complete an application for financial aid and submit it to a federal central processing unit. In turn, the college receives the application information for any student who applied for enrollment. The college uses a packaging software system called SARA to package, award, and disburse student financial aid. The system packaged Pell, SEOG, and Minnesota State grants based on certain parameters designed into the system. The college separately packaged college work-study and FFEL loans. The financial aid award detail in SARA interfaced with Minnesota Multi-Campus Student Information System (MSIS), the registration system, to verify the student's credit load after the drop/add period and to make adjustments in the award before disbursement. The college applied student financial aid against tuition and fees in MSIS and generated a check to the student for any excess balance.

Students generally receive the Federal Pell Grant as the first source of financial assistance. The federal government does not limit Pell Grant awards to the college; all eligible students receive Pell Grant awards. The maximum Pell grant for the 1996-1997 award year was \$2,470. The

Red Wing/Winona Technical College

federal central processing system determines each student's Pell Grant award based on the student's cost of attendance budget and the expected family contribution for the upcoming school year.

Under the Federal Family Education Loan (FFEL) Program, private lenders provide the loan principal, and the federal government guarantees the loan in the event of default or cancellation. For subsidized Stafford loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For unsubsidized Stafford loans, interest accrues from the date of origination and the borrower assumes responsibility for the interest.

Minnesota residents that demonstrate financial need could receive a Minnesota State Grant, which the Minnesota Higher Education Services Office funds. The state made the awards to undergraduate students attending schools in Minnesota, who did not exceed the equivalent of 12 full-time quarters of attendance. The college packages and disburses the state grants along with federal financial aid. Eligible students must register and attend classes totaling 15 credits to receive their full grant award. Minnesota State Grant funding in fiscal year 1997 totaled \$268,211.

The financial aid office at Winona requested federal Pell, SEOG, and Federal Work-Study funds for both campuses through the electronic funds transfer (EFT) method. The college also received Federal Family Educational Loan funds through electronic transfer from lenders.

Carl D. Perkins Federal Grant

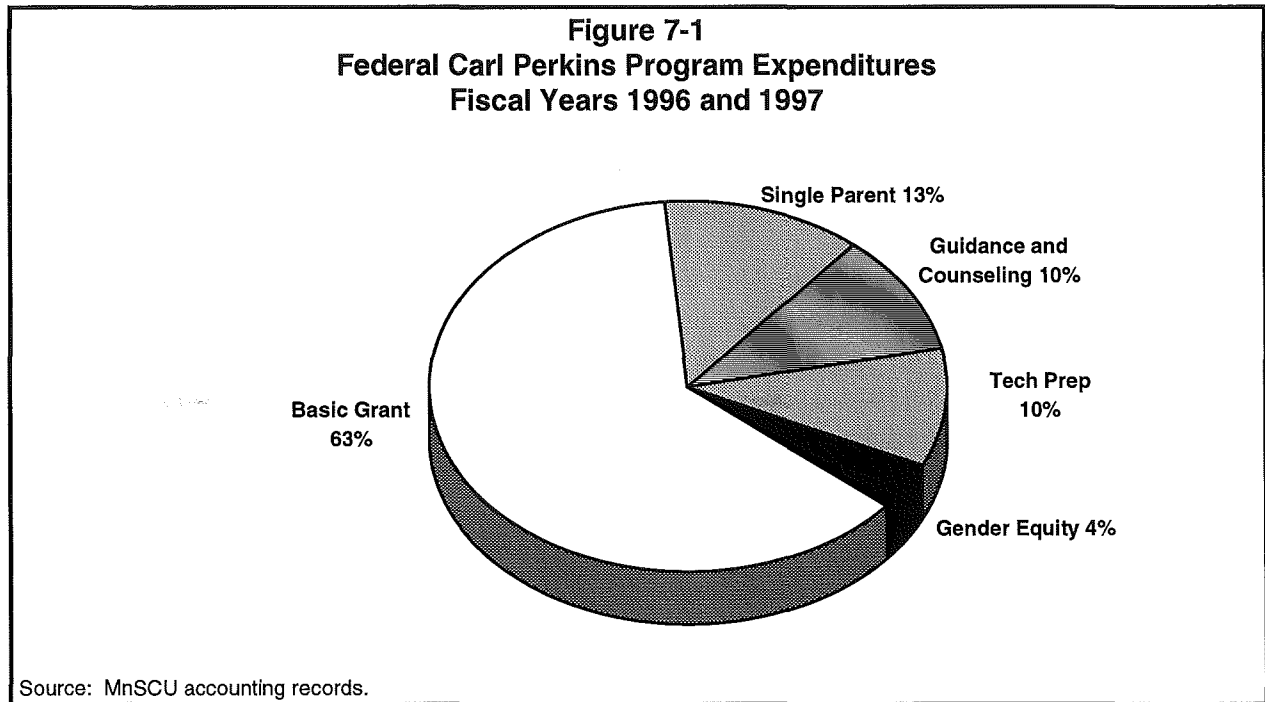
The Carl D. Perkins Vocational and Applied Technology Education Act of 1990 provides federal assistance to secondary, post secondary, and adult vocational education programs. The program provides funding to technical colleges for the education of individuals with handicaps. It also provides funding for the educationally and economically disadvantaged and individuals with limited English speaking proficiency. The program also helps fund educational costs for individuals who participate in programs designed to eliminate gender bias and individuals in correctional institutions.

The MnSCU system office established a process for technical colleges to use in applying for and receiving federal funding. The system office awarded funds to the colleges based on the proportion of Pell grant and Bureau of Indian Affairs grant recipients in each institution to the total number of recipients in the state. The college established separate programs and budgets for each campus to administer the grant.

The college spent the majority of its Carl Perkins funds on basic grant related expenditures, including support staff salaries, supplies, and equipment. The college also spent funds on targeted population programs such as gender equity and single parents. Gender equity funds concentrate on programs that promote elimination of sexual bias. Expenses for this program include payroll costs of the gender equity coordinator, seminars, and posters that promote equity. Single parent funds offer assistance to single parents, displaced homemakers, and unmarried pregnant women. The single parent program assists with transportation and child care costs.

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The college spent \$705,090 from grant funds in fiscal years 1996 and 1997 combined, as shown in Figure 7-1.



Conclusions

We found that Red Wing/Winona Technical College designed internal controls to provide reasonable assurance that the state and federal grant transactions were authorized and properly recorded in the accounting records. The college designed internal controls and complied with applicable legal requirements for the packaging, awarding, and disbursing of student financial aid as of December 1997. However, we did find a system access weakness, as discussed in Finding 12.

We found that the college complied with federal student financial aid general requirements over cash management and federal reporting. However, we found some questionable expenditures and documentation weaknesses in the Carl Perkins program, as discussed in Finding 13.

12. Red Wing/Winona Technical College did not adequately restrict computer security access to SARA.

The financial aid office did not adequately control passwords to its computer system. The college's two financial aid offices both used the SARA program to package, award, and disburse financial aid to its students. Only the two financial aid employees at the Winona campus had logonIDs and passwords for the SARA system. The Red Wing financial aid employees did not have logonIDs or passwords. In order for Red Wing employees to access the system, they called the Winona financial aid office to determine the availability of the system. The Winona campus employee logged onto the system and then permitted the Red Wing employee to take control of the session through the phone line.

Red Wing/Winona Technical College

In addition, student workers also updated records in SARA by using the logonID of one of the two Winona employees. To ensure that only authorized employees made appropriate changes to the SARA system, every employee, including student workers, should have their own logonID and password.

Recommendation

- *Red Wing/Winona Technical College should ensure the security of the SARA system by assigning unique passwords and logonIDs to staff authorized to use the system.*

13. Red Wing/Winona Technical College used Carl Perkins funds for unallowable expenditures.

In some cases, the college used federal Carl Perkins program funds to pay for unallowable expenditures. In other cases, the college made emergency assistance payments to students rather than directly to vendors.

The college used \$800 in Carl Perkins funds to pay for four equity excellence awards to students. It appeared that the college awarded the funds based on academic criteria and not on economic need. Program regulations only allow such awards to be given when the college can demonstrate that the student could not participate without the assistance. The college also paid a nominal amount of credit card finance charges from Carl Perkins funds. Federal regulations specifically disallow expenditures for interest and financing costs.

In addition, the college did not disburse federal Carl Perkins emergency assistance payments in accordance with program requirements. The program allows the college to make emergency assistance payments to eligible students for items such as child care and transportation. To receive the funds, students must demonstrate that they would not be able to attend classes without the assistance. However, program regulations require that the emergency payments go directly to third party vendors after the students document that they incurred the expense. The college did not always obtain invoices or other adequate documentation from students verifying that the expense actually occurred. Also, the college generally paid the emergency assistance directly to students rather than the vendors, as required.

Recommendations

- *Red Wing/Winona Technical College should resolve any potential repayments for unallowable program expenditures with the system office.*
- *The college should directly pay vendors for emergency assistance expenses incurred by the students under the Carl Perkins program.*

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Chapter 8. Bookstore Operations

Chapter Conclusions

In our review of bookstore operations, we found that the college did not have adequate separation of duties over either of its bookstores. On each campus, one employee, the bookstore manager, operated the entire bookstore. In addition, we found that the college has not prepared a comprehensive set of financial statements for either bookstore. Because of this, the college cannot make appropriate financial management decisions regarding its bookstores.

The college operates a bookstore on both campuses. Each bookstore has its own bookstore manager who generally manages the entire operation. Each bookstore shares its space with the campus cashier. The Winona bookstore primarily sells only textbooks with some limited supplies and sundry items. Beyond books and supplies, the Red Wing bookstore also sells some clothing items, such as school sweatshirts.

Audit Objective and Methodology

This chapter consists only of a review of bookstore expenditures. Chapter 3 contains our conclusions on bookstore revenues. The objective of our review of bookstore expenditures was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore 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 staff at both bookstores and the business office to gain an understanding of the controls in place over bookstore expenditures. We tested samples of expenditure 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 an internal control weakness at both bookstores. As discussed in Finding 4 and in Finding 14 below, one employee on each campus, the bookstore manager, was responsible for the operation of the entire bookstore. Additionally, the college has not prepared a set of comprehensive financial statements for either bookstore.

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14. The college did not have adequate separation of duties over bookstore operations.

The college did not adequately separate several key financial duties within the bookstore operations at either campus. The campus bookstore managers performed all functions, including purchasing, receiving, and stocking of the inventory. The bookstore managers also maintained the inventory records and performed quarterly inventory counts. Allowing one individual to perform all of these functions increased the risk that errors or irregularities could occur without detection.

Recommendation

- *The college should provide for the necessary separation of duties in order to ensure the accuracy, completeness, and valuation of bookstore expenditures.*

15. Red Wing/Winona Technical College has not prepared financial statements for either bookstore.

Red Wing/Winona Technical College did not prepare financial statements for either bookstore. Table 8-1 shows the revenue and expenditure totals by campus for fiscal year 1997.

Table 8-1
Revenues and Expenditures for Bookstore Operations
Fiscal Year 1997

	<u>Winona Campus</u>	<u>Red Wing Campus</u>
Bookstore Revenues	\$266,731	\$170,426
Bookstore Expenditures	<u>215,194</u>	<u>156,035</u>
Excess Revenues over Expenditures	<u>\$ 51,537</u>	<u>\$ 14,391</u>

Source: MnSCU accounting records.

There are numerous problems with the numbers presented in Table 8-1, including the following:

- The college did not calculate financial statement components such as costs of goods sold or depreciation charges.
- The college did not fully charge the cost of operating the bookstore against revenues. The college did not charge either bookstore utility costs such as phone, heat and electricity, rent for the bookstore space, or indirect costs incurred by the business office.
- The college does not maintain a perpetual inventory system for either bookstore. Each bookstore manager performed quarterly inventory counts and also updated the related records.
- In fiscal year 1997, the college incorrectly posted the interest earned of \$5,659 as a negative expense to the Winona bookstore account, rather than interest revenue. The college used the interest earned to offset the fees that the merchant charged for processing credit card charges used at the college.

Red Wing/Winona Technical College

Since the college did not properly charge all of the costs attributed to the bookstore against the revenues, it is impossible to determine whether the bookstores were profitable. The college, therefore, cannot make the appropriate financial management decisions regarding its bookstores.

Recommendation

- *Red Wing/Winona Technical College should prepare financial statements for its bookstores.*

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Status of Prior Audit Issues

As of February 13, 1998

Most Recent Audits

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs administered by the state of Minnesota in fiscal year 1996. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to the Red Wing/Winona Technical College.

Other Audit History

Legislative Audit Report 96-24, issued in June 1996, covered fiscal year 1995 federal financial aid programs administered by the state of Minnesota. This report did not include any findings related specifically to the Red Wing/Winona Technical College.

Legislative Audit Report 96-35, issued in August 1996, covered fiscal year 1996 and addressed the Transition of Technical Colleges into State Government. The Red Wing/Winona Technical College was not one of the 12 institutions reviewed. Therefore, the report did not contain any issues pertaining to the Red Wing/Winona Technical College.

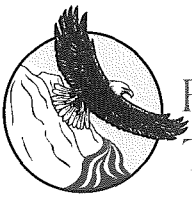
Other Audit Coverage

Prior to the MnSCU merger, the college employed a certified public accounting (CPA) firm each year to examine its financial records and provide an opinion on the college's financial statements. The firm's most recent report covered the year ended June 30, 1995, and was dated November 1, 1995. As part of the audit, the firm issued a management letter to the Independent School District #2186 on behalf of the Red Wing/Winona Technical College. The letter contained one issue regarding the recording of fixed assets. See our current Finding 11.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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Red Wing • Winona Technical College

May 15, 1998

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

Dear Mr. Nobles:

I am thankful to the legislative auditors for moving Red Wing/Winona Technical College up on the audit schedule as we requested. The request was deemed necessary with a new president, a new business manager, and the recent MnSCU merger.

The audit helps us in the planning of procedural development that places us in compliance with state laws and policy and sound financial practices. By incorporating the solutions to the audit findings in our procedures, our students and staff will be better served.

Please find the following listing indicating our commitment and timelines to resolve the audit findings:

1. **Red Wing/Winona Technical College did not transfer certain tuition receipts to the state treasury promptly.**

Assigned to resolve: Blake Pickart, Dean of Finance
Nate Emerson, Financial Aid Director
Resolution date: 4/10/98
Resolution: Based on the MSIS reports run the day before spring quarter financial aid disbursement, we made an entry to transfer the funds. Changes and corrections subsequent to the financial aid disbursement date will be reconciled and funds will be transferred or reimbursed.

2. **Red Wing/Winona Technical College did not maintain sufficient collateral for its local bank account.**

Assigned to resolve: Blake Pickart, Dean of Finance
Resolution date: 5/7/98
Resolution: The average local account balance should decrease as the transfers for financial aid disbursements are made to the state treasury in a timely manner. In the mean time Norwest Bank Winona has agreed to increase the collateral \$200,000 effective 5/7/98. The bank and the college have agreed to assess the correct level of collateral every 60-90 days.

3. **Red Wing/Winona Technical College did not have a written agreement with Winona State University for certain administrative duties it performed for the college.**

Assigned to resolve: Blake Pickart, Dean of Finance
Resolution date: 5/15/98
Resolution: WSU staff met with the college to determine the items that needed to be in a contract. The contract will be completed by 5/15/98.

4. **Red Wing/Winona Technical College did not adequately separate key duties in the bookstore/cashier operations.**

Assigned to resolve: Blake Pickart, Dean of Finance
Resolution date: 6/30/98
Resolution: An organizational chart with descriptions of duties is being developed to obtain input from John Asmussen's office. Being a small college we may have to look at reassigning duties to obtain a good separation of duties.

5. **Red Wing/Winona Technical College did not control voided or refund transactions in its cashier operations.**

Assigned to resolve: Jeanette Speltz, Sheila Ehlers, and Mary Schoeder, Cashiers
Resolution date: 1/16/98
Resolution: A void/refund form has been developed and is currently being used by the cashiers.

6. **The Red Wing campus did not deposit its tuition and bookstore receipts promptly.**

Assigned to resolve: Mary Schoeder, Cashier
Resolution date: 1/16/98
Resolution: The college will follow the state policy of making daily deposits when more than \$250 is received in a day. Staff performing the cashier function have been notified in person and by e-mail of the college's resolve to follow the state policy.

7. **Red Wing/Winona Technical College did not properly manage its accounts receivable.**

Assigned to resolve: Blake Pickart, Dean of Finance
Jeanette Speltz, Cashier
Mary Schoeder, Cashier
Resolution date: 8/1/98
Resolution: Managing accounts receivable in the MSIS student record system has been a manual process. The new ISRS system will solve this problem. Between the time the college converts to the new module and 8/1/98 the cashiers will enter any outstanding accounts receivable from the old system into the new system.

8. **Red Wing/Winona Technical College did not adequately safeguard its customized training program receipts.**

Assigned to resolve: Blake Pickart, Dean of Finance
Myron Eighmy, Dean of Custom Training and Education
Calli Ekblad, Custom Training Secretary
Kelli Bartsch, Custom Training Secretary
Resolution date: 5/15/98
Resolution: Restrictive endorsement stamps have been ordered for staff that perform the cashiering function. Checks will be restrictively endorsed at the time of receipt by the custom training secretaries. The check will then be sent to the cashier for safekeeping. For classes that

run, the checks will be deposited on the second class day. If the class is canceled the check will be voided and returned to the student.

9. **The cosmetology department did not reconcile its receipts to subsequent deposits.**

Assigned to resolve: Blake Pickart, Dean of Finance
Jeanette Speltz, Cashier
Resolution date: 1/16/98
Resolution: Cosmetology delivers a signed cash register report along with their cash and checks to the cashier. The cashier receipts the money, attaches a receipt to the cosmetology report, and files the document in a permanent file.

10. **Red Wing/Winona Technical College did not adequately restrict one person's security**

Assigned to resolve: Deanna Voth, Human Resources Director
Resolution date:
Resolution: The System Office is aware of this problem. Until they find a resolution the college can not correct this problem.

11. **Red Wing/Winona Technical College did not adequately account for fixed assets on the MnSCU accounting system.**

Assigned to resolve: Blake Pickart, Dean of Finance
Bonnie Lutz, Accounts Payable Supervisor
Resolution date: 3/30/98
Resolution: The fixed asset file for assets purchased through 6/30/97 has been sent to the System Office to be loaded into the MnSCU fixed asset system. A complete physical inventory has been taken of the college. When the data that was sent to the system office has been loaded, the assets purchased this current fiscal year will be entered into the MnSCU fixed asset system. Procedures are in place to tag fixed assets when they have been delivered to the college. A complete physical inventory will be taken over the course of twelve months.

12. **Red Wing/Winona Technical College did not adequately restrict computer security access to SARA.**

Assigned to resolve: Blake Pickart, Dean of Finance
Nate Emerson, Financial Aid Director
Resolution date: 4/20/98
Resolution: The college has updated to the Windows 95 version of SARA which allows us to limit access through a new security system. Only the Financial Aid Director and one Financial Aid Assistant have supervisory rights. Student workers only have the rights to load new student data. The Red Wing campus is now running SARA over the Internet with passwords for both the network and SARA. The SARA system is now located on it's own volume of the administrative server which adds another level of security.

13. **Red Wing/Winona Technical College used Carl Perkins funds for unallowable expenditures.**

Assigned to resolve: Blake Pickart, Dean of Finance
Alice Zimmer, Dean of Students
Resolution date: 4/1/98
Resolution: The college has adopted a policy to disburse Federal Carl Perkins assistance payments directly to the vendor.

The college will not pay credit card finance charges with Federal funds.

The college believes that the use of Federal Carl Perkins funds to pay for equity excellence awards is within the scope of the grant. In order to participate in the awards the individual had to be part of a special population: 1) Nontraditional Career Student; 2) Single Parent; or 3) Displaced Homemaker. This established the over-arching qualification based on need. Secondly, individuals were selected based on the individual submitting in writing the reasons they should be selected for the scholarship. Accompanying the request was at least one faculty recommendation and a transcript. A three member evaluation team independently reviewed the three documents and ranked the requests by assigning pre-determined point values. The four individuals with the highest point values received the scholarships.

The college also believes that this activity is professional development for the individuals because they have to write a compelling response to have themselves selected for the scholarship. In addition they have to solicit at least one faculty member's written support. Based on the reasons stated above, the college believes that the part of the finding about the inappropriate use of Perkin's funds is not correct.


14. **The college did not have adequate separation of duties over bookstore operations.**

Assigned to resolve: Blake Pickart, Dean of Finance
Resolution date: 6/30/98
Resolution: An organizational chart with descriptions of duties is being developed to obtain input from John Asmussen's office. Being a small college we may have to look at reassigning duties to obtain a good separation of duties.

15. **Red Wing/Winona Technical College has not prepared financial statements for either bookstore.**

Assigned to resolve: Blake Pickart, Dean of Finance
Resolution date: 9/30/98
Resolution: The physical inventory taken at fiscal year end will be entered into the accounting system. Charges will be developed to charge back a portion of the cost of the physical plant to the bookstores. Financial statements will be prepared for the fiscal year ended 6/30/98.

Sincerely,


James J. Johnson
President