St. Cloud Technical College

Financial Audit
For the Period July 1, 1995 through June 30, 1997

June 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-38

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

Dr. Joan Barrett, President
St. Cloud Technical College

We have audited St. Cloud Technical College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: general financial management, tuition and fees, personnel/payroll, supplies and equipment, and bookstore financial 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 also require that we design the audit to provide reasonable assurance that St. Cloud Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of St. Cloud Technical College is responsible for establishing and maintaining the internal control structure and ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of St. Cloud Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 26, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 13, 1998

Report Signed On: June 22, 1998

SUMMARY

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St. Cloud Technical College

Financial Audit
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Public Release Date: June 26, 1998 No. 98-38

Background

St. Cloud Technical College was established in 1948. The college merged with other state universities, community colleges, and technical colleges on July 1, 1995, to form the Minnesota State Colleges and Universities (MnSCU). The MnSCU Board of Trustees appointed Dr. Joan Barrett as the president of the college effective July 1, 1997.

Our audit scope included a review of college financial management, tuition and fees, payroll, supplies and equipment, and bookstore activities for the period July 1, 1995, through June 30, 1997. We also audited the administration of the federal student financial aid program for fiscal year 1998.

Conclusions

This audit identified serious concerns about St. Cloud Technical College's financial activities and management oversight practices. We found college resources were susceptible to overspending, at risk of being misreported or manipulated, and were vulnerable to errors. The college did not effectively use the MnSCU accounting system to monitor finances.

St. Cloud Technical College did not properly administer and control its financial operations. The MnSCU accounting system balances were not reliable and the college did not reconcile its accountings records to state treasury and local bank account activities. Financial staff responsibilities were poorly separated and computer access privileges were excessive. Cash and deposit monitoring controls were inadequate.

Several control weaknesses and financial concerns were raised over tuition and fees, supplies and equipment, and bookstore activities. The college did design controls to provide reasonable assurance over the accuracy of payroll and federal and state student financial aid activities. However, these activities were not properly recorded on the MnSCU accounting system, and other weaknesses were also noted.

In its response to the report, St. Cloud Technical College agreed with the audit findings and suggested recommendations. The college is pursuing or has initiated corrective action to resolve all findings.

St. Cloud Technical College

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Laura Peterson, CPA	Senior Auditor
Sean Bagan	Intern

Exit Conference

We discussed the audit report findings and recommendations with the following representatives of the St. Cloud Technical College and the MnSCU system office at an exit conference on June 10, 1998:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Teri Welter	Director of System Accounting
John Asmussen	Executive Director of Internal Auditing
Melissa Primus	Internal Auditor
St. Cloud Technical College:	
Joan Barrett	President
Caroline LeBlanc	Interim Business Manager

Chapter 1. Introduction

St. Cloud Technical College is the second oldest technical college in the state. It began as part of the technical high school in 1948. In the early 1960's, the college moved to the current college campus that houses educational programs in business, health, management, service occupations, and trade and industry. St. Cloud Technical College is accredited by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools. Dr. Larry Barnhardt served as the president from July 1991 to December 1996. Dr. Harold Erickson served on a part-time basis as interim president from January 1997 to June 1997. Dr. Joan Barrett, the current college president, began her appointment in July 1997.

St. Cloud Technical College is part of the Minnesota State Colleges and Universities (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, St. Cloud Technical College was part of Independent School District 742, which was audited by an independent CPA firm.

St. Cloud Technical College funds its operations primarily from state appropriations and student tuition and fees. These funds are administered in the state treasury. The MnSCU system office allocates a portion of the system-wide appropriation to the individual colleges based on an allocation formula. The college is responsible for collecting tuition and fees from students. Table 1-1 notes student enrollment and primary funding sources:

Table 1-1
St. Cloud Technical College
Student Enrollment and Selected Funding Sources
Fiscal Years 1996 and 1997

	FY96	FY97
Student Enrollment [1]	1,822	1,850
Appropriation Allocation [2]	$7,119,688	$7,925,708
Tuition, Fees, and Other General Fund Receipts [3]	$4,539,203	$4,564,911

Note: Because of concerns about the accuracy of the college's balances on the MnSCU accounting system, as discussed in Chapter 2, complete financial information for the college is not presented.

Source: [1] Full Year Equivalents (FYE) from St. Cloud Technical College Student Registration System.
[2] MnSCU system office allocation schedules and MAPS appropriation transfers.
[3] Minnesota Accounting and Procurement System (MAPS) for fiscal years 1996 and 1997, as of September 1996 and September 1997, adjusted to remove beginning fund balance and fiscal year 1995 accounts receivables posted as fiscal year 1996 receipts.

St. Cloud Technical College

As recorded on the state's accounting system (MAPS), the college incurred General Fund operating expenditures of $11.3 million in fiscal year 1996 and $13.2 million in fiscal year 1997. Payroll expenditures were the largest operating cost shown in the state treasury accounts.

The college also administers funds in local bank accounts outside the state treasury. These funds include financial aid, agency accounts, and enterprise activities. The college is responsible for recording this activity in MnSCU accounting but does not process these transactions through the state treasury or record the activity in the state's accounting system.

St. Cloud Technical College is affiliated with the St. Cloud Technical College (SCTC) Foundation, which is a non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts and had annual audits of its fiscal year 1996 and 1997 financial statements. Prior to October 1996, the college did not have a written agreement with SCTC Foundation even though it provided administrative and financial services to the organization. However, in October 1996, St. Cloud Technical College entered into a written agreement with the foundation to provide administrative support. In return, the SCTC Foundation agreed to return annually to the college or its students, at a minimum, an amount sufficient to cover the time and related fringe benefits earned by the college employee who performed the services.

In Chapter 2, we discuss the overall financial management of the college. Chapter 3 includes our review of tuition and fee collections. In Chapters 4 and 5, we discuss our review of payroll expenditures and supply and equipment purchases. Chapters 6 and 7 discuss financial aid and bookstore operations.

Chapter 2. Financial Management

Chapter Conclusions

St. Cloud Technical College did not effectively monitor and control its financial activities. We found that college finances were susceptible to overspending, at risk of being misreported or manipulated, and vulnerable to errors or irregularities. Specifically, financial activities lacked management oversight and control. The college did not ensure that MnSCU accounting records were accurate and complete. It did not perform critical reconciliations of its major financial activities and local bank accounts. There was an inadequate separation of critical financial responsibilities and business system access. In addition, we noted concerns over cash access, bank deposits and transfers, and collateral monitoring.

St. Cloud Technical College established its business office in 1993 to handle accounting and financial operations. Prior to that time, finances were handled by the school district. During the time of our audit, there were six employees in the business office, including cashiers and payroll staff, who were supervised by the director of finance. The director of human resources managed two employees in the human resource office.

A key factor that challenged the college during the past two years was the changing leadership in the president's office. Dr. Larry Barnhardt left his position in December 1996. From January through June 1997, Dr. Harold Erickson was on site one day per week while also serving as president of Lake Superior Technical College. Dr. Joan Barrett was appointed president of the college in July 1997. These management changes occurred during a critical post-merger transition period for the college, as financial management controls and reporting structures were being developed.

Financial Systems

St. Cloud Technical College utilizes the MnSCU computerized accounting and payroll systems to account for and control its financial activities. MnSCU requires all campuses to use MnSCU accounting to account for money maintained in the state treasury, as well as in local bank accounts outside the state treasury. The college uses the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage personnel and payroll for its employees. These systems interface directly into the state of Minnesota's accounting system called Minnesota Accounting and Procurement System (MAPS), and the state's personnel and payroll system referred to as State Employee Management System (SEMA4). MAPS and SEMA4 then generate warrants for payments from the state treasury accounts.

In addition to these information systems, St. Cloud Technical College used the Minnesota Student Information System (MSIS) for student registration and accounts receivable. The college also used the Student Aid Reporting and Analysis System (SARA) for financial aid awards.

Budgetary Controls

St. Cloud Technical College established spending budgets for the academic and administrative areas of the college based on appropriation and tuition revenue estimates. Managers and program directors were responsible to control spending within their assigned budgets. MnSCU accounting was designed to be used as a tool to monitor and control budgets. Spending budgets should provide control over individual cost center spending levels. The business office and cost center managers should routinely receive and review MnSCU accounting reports which compare actual activity with estimates. The college should closely monitor actual revenue and implement cost cutbacks if revenue falls short of estimates. MnSCU board policy requires that the college carry forward a minimum reserve level of funds from year-to-year. The policy anticipates that by 2001, the colleges will maintain a reserve equal to five percent of annual operating revenue.

Audit Objectives and Methodology

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

- Did St. Cloud Technical College properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did the college properly account for and control its local bank accounts?
- Did the college design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for each of the program areas discussed in the following chapters. We inquired about management controls in place over state treasury and local bank accounts and the programs included in our audit scope. To the extent possible, we reviewed MnSCU accounting transactions to determine if the college properly recorded revenue and expenditures for its state treasury and local financial activities. MnSCU accounting cost center budget versus actual balances were reviewed and discussed with staff. We also observed cash access, tested bank deposits and transfers, and inquired about local bank collateral and reconciliations to the accounting system. Finally, we reviewed security access reports to determine whether the college limited access to its computerized business systems.

Conclusions

We identified several significant concerns relating to St. Cloud Technical College's overall financial management. We found that the college's financial operations were susceptible to overspending, at risk of misreporting, and vulnerable to errors and manipulation. The college did not design and implement controls to prevent or detect errors and irregularities in its financial activities, should they occur.

We noted five overall financial management concerns that impacted conclusions on most programs we examined:

- The college lacked sufficient budgetary controls to ensure it operated within available financial resources.
- The college did not properly record its financial activities in MnSCU accounting.
- The college did not verify the accuracy of accounting transactions and balances through key reconciliations with the state treasury, local bank accounts, and between the various systems.
- The college did not separate incompatible accounting duties nor computerized security access functions.
- The college did not appropriately control cash access, bank deposits, and transfers.

1. St. Cloud Technical College lacked effective monitoring and budgetary controls to ensure it operated within available resources.

The college did not effectively use MnSCU accounting to monitor revenue and expenditures against expected budget levels. Weak budget controls and unreliable financial information increased the risk that the college may not operate within available resources. In fact, the MnSCU accounting system showed that the college overspent its General Fund resources by $464,229 as of June 30, 1997. However, General Fund state treasury accounts reflected a positive balance of $438,599 at the close of fiscal year 1997.

The MnSCU accounting system was intended to provide college administrators and program staff with the necessary tools to control spending budgets. However, unreliable MnSCU accounting information caused poor monitoring and oversight of cost center spending. Generally MnSCU accounting reports were not disseminated to cost center managers. As a result, staff responsible for purchasing decisions were not aware of the financial status of their accounts and overspending occurred. More importantly, the lack of reliable financial information resulted in weak and fragmented communication of the college's overall financial status to the president.

We reviewed a MnSCU budget status report and analyzed budget transactions for fiscal years 1996 and 1997. Our analysis of the college's financial activity as recorded in MnSCU accounting raised several "red flags:"

- The college did not record state appropriations accurately or timely.
- Variances between certain budgeted and actual revenue and expenditure amounts were significant, and explanations were not pursued by college management.
- Some cost centers did not have budgets or budgets were unreasonable.

St. Cloud Technical College

- Budgeted expenditures exceeded budgeted revenue for some activities.
- In both years, over half of the general fund cost centers exceeded the spending budgets that were established.
- MnSCU accounting reports as of December 15, 1997, showed that the college expended beyond its available resources. The college's recorded general fund operating balance was $1,177,942 at June 30, 1996, however, it decreased to ($464,229) at June 30, 1997. As explained in Finding 2, we questioned the reliability of financial balances recorded in MnSCU accounting.
- The business office continually adjusted control budgets, moving funds from one cost center to another. Documentation supporting these adjustments lacked explanation and rationale for amounts adjusted.
- MnSCU accounting showed that enterprise fund cost centers incurred substantial losses and budgets were inflated. In fiscal year 1997, the bookstore showed $113,732 more expenses than revenues while food service lost $142,005. The fiscal year 1997 food service budget amount was nearly twice its actual revenues and expenses. The parking account lost $139,919 in fiscal year 1996. The 1997 parking budget showed $1 million in budgeted revenues and expenses; however, actual revenues totaled $117,000 and expenditures were $62,000.

In Finding 2, we identify that the college did not properly record financial activity in MnSCU accounting. We found the state's accounting system (MAPS) to be a more reliable source for evaluating the college's primary operating activities that were administered in the state treasury. The operating fund included the primary financial transactions of the college's academic and administrative functions. Table 2-1 shows St. Cloud Technical College's General Fund revenue and expenditures as recorded in the state's accounting system:

Table 2-1
St. Cloud Technical College
General Fund Revenue and Expenditures
Fiscal Years 1996 and 1997

	FY96	FY97	% Change
Balance forward in	$ 828,002	$ 1,179,207	42.4%
Appropriations	7,119,688	7,925,708	11.3%
Revenues	4,539,203	4,564,911	0.6%
Expenditures	(11,307,686)	(13,231,227)	17.0%
Balance forward out	$ 1,179,207	$ 438,599	(62.8)%

Note 1: Appropriations and expenditure increases were due largely to retroactive UTCE contract settlements paid in fiscal year 1997.

Note 2: Revenues and expenditures are recorded on a budgetary basis, which does not include long-term assets and liabilities. For example, the college is responsible for funding future compensated absences obligations estimated at $600,510 as of June 30, 1997.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1996 and 1997, as of September 1996 and September 1997, adjusted for beginning fund balance and fiscal year 1995 accounts receivables posted as fiscal year 1996 receipts.

St. Cloud Technical College

We noted significant differences between amounts recorded on MnSCU accounting and on MAPS. As explained in Finding 3, the college did not reconcile the differences between the two systems. Fortunately, the financial activity recorded in MAPS indicated that the college's spending did not exceed available resources. However, MAPS showed that the college depleted its operating reserve by $740,608, or nearly 63 percent, from 1996 to 1997. The college must monitor and control budgets diligently to ensure that it operates within available resources. College administrative management should intervene if cost center managers exceed spending budgets.

Recommendation

- *St. Cloud Technical College should improve budget control over its financial activities by:*
  - *establishing reasonable cost center budgets in MnSCU accounting and accurately recording actual financial activity against those budgets;*
  - *routinely distributing MnSCU accounting budget and actual balance reports to cost center managers and staff;*
  - *investigating and resolving large budget variances; and*
  - *developing an overall financial status report for college management.*

2. St. Cloud Technical College did not properly record its financial activities in MnSCU accounting.

Much of the financial information recorded in MnSCU accounting for fiscal years 1996 and 1997 was not reliable. College financial management did not have an overall understanding of the accounting system, and did not properly record many of the underlying financial activities. We noted concerns with inaccurate and untimely recording of appropriations, unrecorded or misreported financial activities, improper identification of transactions, and substantial manipulation of recorded balances. These problems created an environment where recorded financial activities could not be effectively verified to the actual state treasury or local bank account transactions, as discussed in Finding 3.

The college did not record its appropriation allocations from the system office timely or accurately in MnSCU accounting. The system office transferred the majority of the college's appropriation funding in MAPS at the beginning of each fiscal year. However, the college did not record its fiscal year 1996 and 1997 appropriations in MnSCU accounting until May 1996 and March 1997, respectively. Ideally, the college should post appropriations when the system office transfer of funds is made. We also noted differences in the total appropriations posted by the college. Table 2-2 shows the differences between MnSCU accounting and MAPS appropriation balances.

Table 2-2
St. Cloud Technical College
MnSCU Accounting vs. MAPS Appropriation Balances
Fiscal Year 1996 and 1997

	MAPS	MnSCU Accounting	Overstated (Understated)		Percent
Fiscal Year 1996	$7,119,688	$7,788,688	$ 669,000	[Note 1]	9.4%
Fiscal Year 1997	7,925,708	7,116,965	(808,743)	[Note 2]	-10.2%

Note 1: The college incorrectly recorded $669,000 of non-AFDC Child Care Grants and Minnesota State Grants as appropriations in MnSCU accounting for fiscal year 1996.

Note 2: The college actually understated its appropriations by $889,493 and incorrectly recorded $24,500 of non-AFDC Child Care Grants and Minnesota Indian Scholarships, and $56,250 of federal work study match, as appropriations in MnSCU accounting for fiscal year 1997.

Source: Minnesota Accounting and Procurement System (MAPS) and MnSCU accounting system fiscal year 1996 and 1997 balances as of December 15, 1997.

We noted certain financial activities that were not properly recorded on MnSCU accounting, including :

- Approximately $2.8 million in federal financial aid was not recorded on MnSCU accounting for fiscal year 1996, as reported in Finding 22. We also noted FFEL and work-study were recorded in the wrong fund type during fiscal year 1997.
- College clearing accounts, including payroll posting errors, had outstanding balances and were not corrected timely.
- In fiscal year 1997, the college imprest cash fund reported transactions totaling more than $3 million, which would be excessive for that type of activity.
- From September to November 1996, over $63,500 of bookstore revenue was deposited into the parking cost center but was corrected later in the fiscal year. However, we noted that the college business office initiated two separate corrections for different amounts. One correction had to be reversed.
- Payroll was double-counted for enterprise fund activities as explained in Finding 13. Over $287,000 was posted twice in MnSCU accounting causing an overstatement of actual payroll expenses for enterprise funds. Another $53,000 of foundation payroll costs were inappropriately charged to enterprise fund accounts.

MnSCU accounting also contained certain financial transactions that were not identified with the proper object code identifiers as explained in Finding 19. Transaction object codes describe the type of good or service purchased. We noted equipment transactions that were actually supply purchases. A large portion of the payroll expenditures in auxiliary accounts were miscoded as miscellaneous benefits. The college needs to code the underlying transactions accurately in order to produce meaningful financial information.

Finally, we noted several areas where the college had adjusted or manipulated recorded balances. Many underlying transactions were coded in error and required adjustment. Several journal voucher adjustments and corrections moved revenues or expenditures between funds or accounts. Increased concern and uncertainty resulted from poorly documented rationale for adjustment amounts. While the intent of adjustments may have been to correct accounting system balances, the poor documentation increased the risk of inappropriate manipulation.

Recommendation

- *St. Cloud Technical College must improve accounting for its financial activities by:*
  - -- *recording financial transactions timely;*
  - -- *ensuring that transactions are recorded in the proper fund and cost center accounts and with proper object code identifiers; and*
  - -- *providing appropriate documentation for subsequent accounting system adjustments.*

3. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not verify the accuracy of accounting records through key reconciliations.

The college did not effectively control its major financial activities by performing key reconciliations. Reconciliations are critical to ensure that the accounting records agree with cash inflows and outflows in the state treasury and local bank accounts. They ensure all financial activity is shown in the accounting system and allow monetary errors or irregularities to be detected. Table 2-2 shows the college's key reconciliations and their status as of February 1998.

Table 2-2
St. Cloud Technical College
Key Financial Reconciliations
Status as of February 1998

Reconciliation	Financial Activity Affected	Status	Related Finding #
MnSCU accounting to MAPS	All	Not attempted	3
MnSCU accounting to local bank accounts.	All	Attempted but not reconciled	21
MSIS billable credits to MnSCU accounting tuition collections	Tuition	Not attempted	7
SCUPPS to SEMA4	Payroll	Reconciled in total but error reports not reviewed.	12
SARA to MSIS	Financial Aid	Reconciliation performed but not documented.	21
MSIS to MnSCU accounting	Financial Aid	Not attempted	21
MnSCU accounting to bookstore bank activities.	Bookstore	Not attempted	26
MnSCU accounting receipts to bookstore subsidiary accounts receivable	Bookstore	Not attempted	29

Source: Auditor prepared.

St. Cloud Technical College

The lack of reliable MnSCU accounting information, as discussed in Finding 2, made these reconciliations a very difficult undertaking. Accounting transactions should generally correlate to the flow of funds in the state treasury or local bank account. Any differences would generally be timing differences. However, many reconciliations also involve comparing two subsystems to identify consistency and accuracy of recording. Both types of reconciliations are vital to ensure the accuracy and completeness of the accounting records.

Recommendations

- *St. Cloud Technical College should obtain appropriate training for its staff to ensure bank and accounting reconciliations are completed accurately and timely.*

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

4. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not adequately separate financial duties.

The college had not articulated financial management objectives, such as accurate financial reporting or safeguarding of assets, nor implemented controls to achieve those objectives. The college had several conflicting functions assigned to the same employee. Separation of duties involves separating custody, recording, authorization, and reconciliation of financial activities between staff. Allowing incompatible accounting responsibilities increases the risk of errors or irregularities occurring and not being detected in a timely manner.

Employees from several administrative areas within the college had responsibility for conflicting accounting functions. Table 2-3 details the conflicts we observed and the financial activity that would be affected.

Table 2-3
St. Cloud Technical College
Inadequate Separation of Duties
Status as of February 1998

Employee	Conflicting Functions	Financial Activity Affected	Related Finding
Business office staff	• Broad access to cash	All	6
Tuition cashier	• Access to cash and accounts receivable	Tuition and fees	8
Tuition cashier, registrar, Financial aid office staff	• Access to student registration and accounts receivable	Tuition and fees	8
Business office staff	• Purchasing and accounts payable	Supplies and equipment	5, 16
Business office staff	• Purchasing and forced encumbrances	Supplies and equipment	16
Business office staff	• Recording equipment and verifying equipment inventory	Equipment	11
Business office staff	• Posting transactions, initiating journal vouchers, and reconciling balances	All	2
Human Resources staff, Business office staff	• Human resources and payroll processing functions	Payroll	5
Financial aid office staff	• Financial aid awards and disbursements or loan checks	Financial aid	20
Bookstore manager	• Purchasing, receiving, and authorizing vendor payments.	Bookstore	30
Bookstore manager	• Purchasing and inventory records	Bookstore	30

Source: Auditor prepared.

The college needs to review its staff responsibilities in all financial areas. Ideally, duties should be separated between custody, recording, authorization, and reconciliation of financial activities. This may require involvement and cross-training of employees in more than one financial area. If a particular area cannot be effectively separated, the college should provide for a periodic, independent review of that employee's work.

Recommendations

- *St. Cloud Technical College should establish financial management objectives such as accurate financial reporting and safeguarding of assets. The college should develop control procedures, such as adequate separation of duties, that provide reasonable assurance that those objectives will be achieved.*
- *St. Cloud Technical College should realign accounting responsibilities to improve separation of incompatible duties between staff.*

St. Cloud Technical College

5. College security controls over the ability to access and update MnSCU accounting and SCUPPS personnel/payroll system transactions require improvement.

St. Cloud Technical College did not adequately administer and control access to its computerized accounting and personnel/payroll systems. The Director of Finance acted as the college security administrator for MnSCU accounting and MAPS. The Director of Human Resources administered access to SCUPPS and SEMA4. These security administrators worked with regional data center staff to manage access privileges for college employees. The college has the authority and responsibility to ensure that employee access is limited to functions necessary for performing assigned responsibilities. We noted several weaknesses in the security administration of the college's business systems.

- College security administrators did not have a good understanding of the access granted by the various security profiles. They provided employees with broad access to system privileges rather than restricted access based on job responsibilities.

- Employees were given access to incompatible computerized functions which eroded separation of duties within the business systems. For example, two business office employees and two human resource office employees had clearances in SCUPPS and SEMA4 that allowed them to update both payroll and human resource data. Similarly, business office staff were given access to both purchasing and accounts payable functions.

- The college security administrators did not periodically review system user security reports identifying employee access privileges to MnSCU accounting and SCUPPS. It is critical for the college to monitor access to its computerized business systems, especially during periods of changing system requirements and staff responsibilities.

Recommendation

- *St. Cloud Technical College should improve security access controls by restricting access to its business systems based on job responsibilities and periodically reviewing system user security reports.*

6. College controls over cash receipts, bank deposits, and transfers were inadequate.

St. Cloud Technical College maintained four bank accounts at two different banks. The college deposited the majority of daily cash receipts into the state depository checking account. This account also held the auxiliary account monies for the bookstore, food service, and other local activities. The college had other bank accounts for federal financial aid, state financial aid, and Perkins loan repayments. We noted concerns with internal controls over cash access, bank deposits and transfers, and collateral sufficiency.

The college secured daily cash receipts in a safe in the business office. The business office stored the safe in a locked room, but they did not lock the safe during the day. All business office employees had access to the key to the locked room. This unrestricted access increased the risk that cash could be stolen.

St. Cloud Technical College

The college did not implement control procedures that prevent or detect errors in bank deposits. We tested three months of daily bank deposits and found that 36 percent of the deposits had cash differences ranging from a $1,894 overage to a $30 shortage. The bank had identified discrepancies between the cash on hand for deposit and the amount listed on the deposit ticket. The bank deposited the actual cash it received into the account and alerted the school with a deposit correction notice. However, we found no evidence indicating that the college reviewed the notices or attempted to improve deposit controls. The combination of unrestricted access to cash and lack of review and investigation of bank deposit differences made cash especially vulnerable to theft or misappropriation.

The use of multiple bank accounts required additional management oversight. We noted that telephone transfers from one bank account to another occurred frequently, many times more than once a day. The college incurs a bank service fee for each transfer. Additionally, we noted that the college incurred over $2,000 in overdraft charges because the business office neglected to transfer funds from one account to another.

The college did not monitor collateral for the local bank accounts. Collateral protects state deposits from risk of loss due to bank failures or closures. State statutes require state entities to establish collateral equal to 110 percent of the amount on deposit at the close of the business day, less any insured portion. For its state depository and auxiliary account, the college did not monitor the adequacy of collateral assigned by the bank. We also learned that the assigned collateral secures deposits for both the technical college and state university. The college will have to work with St. Cloud State University to effectively monitor the sufficiency of collateral.

Recommendations

- *St. Cloud Technical College should improve cash controls by:*
  - -- *restricting access to daily cash receipts;*
  - -- *independently counting cash receipts supporting daily deposits;*
  - -- *investigating and adjusting deposit differences detected by the bank; and*
  - -- *assuring that bank transfers are properly initiated.*

- *St. Cloud Technical College should monitor the sufficiency of collateral in its local bank accounts. The college should work with the state university to coordinate bank balances and collateral needs for its bank accounts.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

For the items tested, St. Cloud Technical College assessed and collected tuition and fees, and initiated daily deposits into the state treasury, in compliance with material legal provisions. However, we noted certain weaknesses over tuition revenue and related receivables. The college did not verify that all tuition earned was collected. We also noted an inadequate separation of duties over tuition receivables. Several staff had unnecessary access to the student registration and receivable system (MSIS). Finally, we had concerns about the collection of tuition in areas outside the business office and the improper recording of the college's SEOG match.

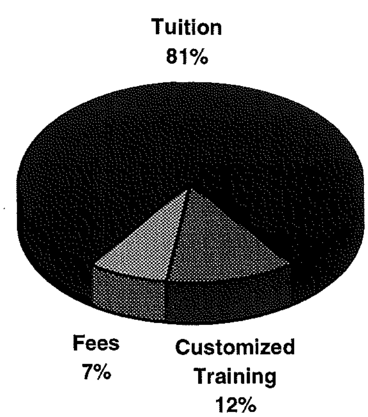
St. Cloud Technical College collected tuition and fees each quarter from students enrolled in campus programs and continuing education classes. The college used the Minnesota Multi-Campus Student Information System (MSIS) to register, bill, and collect tuition for all classes. For fiscal year 1996, the resident tuition rate was $40 per credit plus miscellaneous fees resulting in over $3.3 million in tuition revenue. For fiscal year 1997, the resident tuition rate increased to $41.60 per credit plus miscellaneous fees resulting in tuition collections of approximately $3.7 million.

The Center for Innovation and Economic Development is a division of St. Cloud Technical College offering customized training and open enrollment classes. Customized training tailors curriculum based on the needs of the company or group requesting the course. Open enrollment classes are provided to teach a specific skill. All center registrations and billings are controlled through MSIS. The center, which is located on the college campus, collected revenues of over $500,000 in each fiscal year.

St. Cloud Technical College

Figure 3-1 shows the breakdown of tuition, fees, and customized training:

Figure 3-1
St. Cloud Technical College
Tuition and Fee Revenue
Fiscal Year 1996-97



Source: MnSCU accounting system.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that tuition, fees, and customized training revenues were adequately safeguarded, accurately recorded in the MnSCU accounting records, and in compliance with applicable legal compliance provisions and management's authorization?
- Did the college properly deposit and record tuition revenue in the state treasury?

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

Conclusions

We found that, for the items tested, St. Cloud Technical College assessed, collected, and deposited tuition and fees in compliance with material legal provisions. However, we found control weaknesses over tuition and unpaid receivables, as discussed in the following findings.

St. Cloud Technical College

7. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not verify the accuracy and completeness of tuition collections.

St. Cloud Technical College did not reconcile billable credits on MSIS to tuition receipts recorded in the MnSCU accounting system. This reconciliation is a critical control since, as indicated in Finding 8, several college staff had inappropriate access to update student tuition payments in MSIS. We calculated fiscal year 1997 tuition based on MSIS billable credits and the 1997 tuition rates, and determined tuition collections were $102,800 lower, or three percent of annual tuition. The variance could be caused by tuition waivers or outstanding tuition charges to external organizations. This reconciliation should be done periodically by the college to provide a basis to assess the completeness and accuracy of tuition revenue recorded in the MnSCU accounting system.

Recommendation

- *St. Cloud Technical College should reconcile billable credits on MSIS to the tuition and fee revenue on a periodic basis.*

8. The college did not adequately separate duties over tuition receivables and access to MSIS was not controlled.

St. Cloud Technical College had an inadequate separation of duties over tuition accounts receivable. Also, the college also did not effectively control access to the Minnesota Multi-Campus Student Information System (MSIS). These weaknesses increased the risk that collections could be posted to student accounts without a corresponding tuition deposit.

The same college employee who collects tuition also posts collections to student accounts and is responsible for monitoring and collecting outstanding receivables. This person also has the ability to delete student accounts from the MSIS system without detection. MSIS exception reports are not independently reviewed. In addition, there is no independent comparison of tuition receipts to student accounts receivable balances to ensure that receipts were properly applied.

The college also did not effectively control access to the Minnesota Multi-Campus Student Information System (MSIS). We found that many college employees, including staff from the registrar's office, had an unnecessary ability to add, delete, and change collections posted to student accounts on MSIS. Only the tuition office needs the ability to update tuition payments. We were told that the registrar's office needed access to MSIS to add late registration fees. Once access was granted, the user acquired the ability to change all transactions, including student collections. The registrar's office should only be able to initiate general information, register students and post grades. Limiting MSIS access to only those employees who need it to perform their duties is critical in establishing strong internal controls.

We also found that the college registrar shared responsibility for MSIS security administration with the database administrator. Ideally, MSIS system users should not be responsible for modifying user access privileges. The risk of errors or irregularities increased by placing responsibility for assets and record keeping on the same employee. Effective internal controls require a person independent of data processing to be responsible for access control for end users. Only the data base administrator, or another security administer, should have the responsibility of modifying or changing access privileges.

Recommendations

- *St. Cloud Technical College should separate responsibilities for tuition receipts and student accounts receivable, or independently reconcile daily cash receipts to amounts applied to student accounts in MSIS.*
- *St. Cloud Technical College should review MSIS access privileges assigned to its employees. The ability to update MSIS payments should be based on job responsibilities.*
- *The college should assign an employee independent of the registration and tuition process to control access privileges on MSIS.*

9. Tuition collections at places other than the business office are not effectively controlled.

The college did not adequately safeguard tuition collections at places other than the business office. Ideally, all tuition collections should be directed to the business office cashier. However, we found that incoming checks are periodically received at the front information desk, or in the registrar's office, and then forwarded to the business office for deposit. Checks received at these locations are not adequately safeguarded or restrictively endorsed. Effective control would include logging and restrictively endorsing incoming checks immediately upon receipt. Without a restrictive endorsement, the checks are vulnerable to loss or theft .

Recommendation

- *St. Cloud Technical College should direct all tuition collections to the business office cashier. If collections occur in the registrar's office or front information desk, checks should be logged and restrictively endorsed immediately upon receipt.*

10. The college understated tuition revenue by misrecording the state match for Federal Supplemental Educational Opportunity Grants (FSEOG).

St. Cloud Technical College understated its fiscal year 1997 tuition revenue by $31,610 and its fiscal year 1998 tuition revenue through December 31, 1997 by $21,533 on MnSCU accounting. When recording financial aid applied toward student tuition, the business office reduced tuition revenues by an amount equal to the college's 25 percent FSEOG match. To balance the transaction, the business office recorded a negative expenditure in MnSCU accounting. However, proper accounting for the FSEOG match should have increased revenues and the respective state match expenditures account.

Recommendation

- *St. Cloud Technical College should properly record tuition revenues for the FSEOG state match.*

Chapter 4. Personnel/Payroll

Chapter Conclusions

The St. Cloud Technical College designed and implemented internal controls providing reasonable assurance that employees received the correct pay in compliance with applicable legal provisions. However, the college lacked controls to ensure that payroll expenditures were accurately recorded in MnSCU accounting. Payroll expenditures for college enterprise funds were overstated. In addition, the college did not adequately document and authorize some payroll transactions. It did not reconcile detailed transactions in the payroll systems resulting in minor overpayments to certain college administrators. Also, leave records for two college administrators were not accurate.

The St. Cloud Technical College spent approximately $8 million on payroll for fiscal year 1997. Payroll expenditures represent the college's largest expenditure. College employees belong to various compensation plans, including the American Federation of State, County, and Municipal Employees (AFSCME), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Excluded Administrators Plan, the Commissioner's Plan, and the United Technical College Educators Plan (UTCE).

MnSCU and UTCE did not reach a final contract settlement, effective July 1, 1995, until May 1997. The college continued to operate and provide faculty compensation based on the former St. Cloud Independent School District No. 742 contract. By law, this contract remained in effect until MnSCU reached its contract settlement with UTCE. In July 1997, faculty received retroactive pay based on the final contract settlement.

During fiscal year 1996, the college used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate and deduction information to determine the amount employees were paid. The MnSCU system office input payroll transactions into PPS from July 1995 through August 1996. In August 1996 the college began processing its own payroll information in the state's new SEMA4 payroll system while continuing to use SCUPPS. The college used SEMA4 to track leave accruals for classified employees and manual records to track all other employees' leave.

The St. Cloud Technical College had separate human resources and payroll sections. The human resources section maintained staff appointments and assignments in SCUPPS. The payroll section collected employee timesheets and entered the payroll information into SEMA4.

St. Cloud Technical College

Audit Objectives and Methodology

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

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

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

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

Conclusions

St. Cloud Technical College designed and implemented internal controls to provide reasonable assurance that employees received the correct pay and that the college complied with applicable legal provisions. However, the college's controls did not ensure that payroll expenditures were accurately recorded in the MnSCU accounting records. The college did not adequately document and authorize some payroll transactions. It did not reconcile the detail transactions in the payroll systems. The college gave some employees inappropriate access to the payroll systems. And, it materially overstated enterprise funds' payroll expenditures in MnSCU accounting.

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

Our testing found that adequate support generally existed for most of the college's routine payroll transactions. However, we found several instances where documentation was poor and needed improvement for certain types of payroll activity.

The St. Cloud Technical College did not document and authorize certain appointments set up in SCUPPS. The college could not substantiate that payments to the employees were proper, as discussed in the following examples:

- One employee's fiscal year 1996 annual base salary changed three times. Due to inadequate documentation we were unable to determine the exact effective dates of the increases.

- For one faculty member, the college's human resources staff set up two appointments in SCUPPS and could not provide evidence that the appointments were authorized.

- One supervisor did not consistently sign two employees' timesheets approving hours worked and leave taken.

St. Cloud Technical College

- The college did not document the reason for $5,400 in adjustments made to one employee's wages.

- Finally, certain faculty timesheets were too cumbersome to determine the actual hours worked each pay period. Several timesheets had days which overlapped pay periods, and one faculty member turned in several time sheets each pay period, one for each class taught.

The college risks incorrect payments to its employees when it does not have proper documentation to support its payroll transactions. It also risks inaccurate reporting of leave balances.

Recommendations

- *The college should improve its documentation and approval of SCUPPS appointments and adjustments made to employees' pay.*

- *Supervisors should consistently document their approval of subordinates' timesheets and leave slips.*

- *The college should develop a timesheet that meets the needs of its faculty members who are required to document hours worked.*

12. The college did not reconcile the detail transactions in the payroll systems.

The St. Cloud Technical College did not reconcile the detail transactions in SCUPPS to SEMA4. The college reconciled the total dollar amounts between the two systems. However, it did not review the SCUPPS control reports that show the discrepancies between the two systems for each employee. The reports also show any errors in posting payroll data into the MnSCU accounting system. Because the college did not review the SCUPPS reports, five excluded administrators received $1,046 more merit pay than they were entitled to. Also, the college did not correct over $566,000 in payroll expenditures that were charged to a default cost center in fiscal years 1996 and 1997 because the proper funding source had not been identified, or sufficient funds were not encumbered.

Recommendations

- *The college should use the SCUPPS control reports to reconcile the detail transactions in SCUPPS to SEMA4 and identify payroll posting errors.*

- *The college should work with the MnSCU system office to correct the balances in the MnSCU accounting default cost centers.*

- *The college should recover the $1,046 it overpaid its excluded administrators.*

St. Cloud Technical College

13. The college overstated enterprise fund payroll expenses in MnSCU accounting.

In fiscal year 1997, St. Cloud Technical College recorded more than twice as much enterprise fund payroll expense than it actually incurred. Two errors caused payroll expenses to be overstated on MnSCU accounting. First, the college incorrectly recorded $287,000 of reimbursements to the state treasury for the salary expenses incurred by the college's enterprise activities. Enterprise activities include the bookstore, computer lab, food service, reprographics center, and parking. The activities reimburse a state treasury clearing account for payroll paid to program employees. Second, the college incorrectly charged $32,500 of payroll for foundation administrative support to the bookstore. During fiscal year 1996, the college also incorrectly charged $20,900 in foundation administrative payroll to the parking fund. The college should record payroll expenditures for the foundation in a general fund account on MnSCU accounting. The purpose of financial reporting for enterprise funds is to identify profits and losses of business-type activities. By incorrectly recording payroll in these funds, the college cannot determine the financial condition of its enterprise activities.

Recommendation

- *The college should establish appropriate procedures for recording enterprise fund payroll expenses in MnSCU accounting.*

14. The college maintained inaccurate leave records for two excluded administrators.

St. Cloud Technical College has not maintained accurate employee leave records for certain administrative employees. We found that the college did not post all leave taken for two excluded administrators. The college maintains a leave record that identifies leave accrued and taken. However, for two college administrators, we noted nine pay periods in fiscal year 1996 and 1997 where the leave posted on timesheets differed from the leave posted to the leave record. One administrator was absent for two days and the leave balance was not reduced. The second administrator showed 71 hours of leave taken during various pay periods, yet only 30 hours were posted to the leave record for those pay periods.

Recommendations

- *St. Cloud Technical College should correct the leave balances for the two excluded administrators.*

- *St. Cloud Technical College should develop appropriate controls to ensure the accuracy of leave records for its excluded administrators.*

Chapter 5. Supplies and Equipment

Chapter Conclusions

We observed key weaknesses in vendor procurement and disbursement controls. The college did not document purchase authorizations, incurred obligations prior to encumbering funds, and lacked receiving evidence assuring the legitimacy of vendor payments. We found that purchasing and accounts payable functions were not sufficiently separated. The college did not code many MnSCU accounting expenditure transactions with proper object code identifiers and accurate obligation dates. Finally, the college did not have an effective system to control its property and equipment.

St. Cloud Technical College faculty and staff initiate purchases of materials, supplies, and equipment to train and educate the students. The college made approximately $1.8 million of materials and supply purchases during the two fiscal years in our audit scope. Equipment purchases exceeded $2.6 million during the two year period. The bookstore did not purchase supplies or equipment through the business office since it has its own purchasing and inventory system. Chapter 8 discusses the purchasing process and findings for the college bookstore.

College faculty and staff utilize a purchase requisition form to initiate purchases over $100 through the college business office. The purchase requisitions must be approved by the department head. A college purchasing employee in the business office bids required purchases, and initiates the system purchase order and encumbrance of funds. Smaller purchases under $100 are made directly by faculty and staff using field purchase orders without going through this procurement process.

The college identifies and tags new equipment with a state of Minnesota identification sticker. A fixed asset record is used to identify and control property and equipment acquired with college funds. MnSCU policy requires colleges to record fixed assets valued over $2,000. Fixed assets valued between $500 and $1,999 are recorded at the college's discretion.

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?

St. Cloud Technical College

To meet this objective, we interviewed college staff to gain a general understanding of the internal controls over supply and equipment purchases and payment processing. We reviewed and analyzed disbursement transactions in MnSCU accounting. We sampled transactions to determine whether the college had adequately documented and authorized the purchase, paid the correct amount, recorded the transaction in the MnSCU accounting system, and complied with MnSCU purchasing policies.

Conclusions

St. Cloud Technical College had key control weaknesses over vendor procurement and payment processing. We noted the college did not document purchase authorizations, incurred obligations prior to encumbering funds, and lacked receiving evidence assuring the legitimacy of vendor payments. In addition, purchasing and accounts payable functions were not separated. The college also did not identify many expenditure transactions with proper object code identifiers and the date of obligation. Finally, the college did not have an effective system to control its property and equipment.

15. College purchases lacked authorizations and staff incurred obligations prior to encumbering funds.

St. Cloud Technical College did not retain key purchase authorizations. We also noted that many college staff incurred obligations prior to encumbering funds in the MnSCU accounting system. They did not submit the purchase requisition to the business office to initiate an encumbrance of funds until after the goods were received. Without adhering to the established procurement process, funds may be not be available to pay for the items acquired.

The college needs to improve its procurement authorization process. Purchase requisitions are not always signed by the department individual designated to authorize the purchase. Without a structured authorization process, inappropriate purchases could occur.

We noted that college staff incurred obligations prior to encumbering funds in the accounting system. Several hundred transactions were identified with one day or less between when the funds were encumbered and when the invoice was paid. In fact, this occurred in nine percent of fiscal year 1997 supply purchases and payments. MnSCU System Procedure 5.5.2, Part 5, Encumbrance, which is based on Minn. Stat. 16A.138, requires that "funds must be encumbered prior to making an obligation...showing sufficient allotment or encumbrance balance in the fund, allotment, or appropriation to meet it." To show the seriousness of the matter, the policy further states that an employee authorizing or making the payment is liable to the state for the amount paid.

Recommendations

- *The college business office should ensure that purchase authorizations by department management are retained.*
- *College staff should ensure that sufficient funds are available and encumbered prior to incurring obligations on purchases.*

St. Cloud Technical College

16. The college did not adequately separate purchasing and accounts payable responsibilities.

St. Cloud Technical College did not effectively separate procurement and payment processing responsibilities. The college employee who does the majority of purchasing also processes disbursement transactions in MnSCU accounting. This places incompatible duties on the same individual without independent review. Separation of duties is necessary to protect assets and minimize risks.

Recommendation

- *St. Cloud Technical College should effectively separate staff purchasing and accounts payable functions.*

17. The college business office did not effectively document that supply or equipment purchases were received.

The St. Cloud Technical College business office paid vendor invoices without obtaining evidence that the items had been received. Department faculty and staff received supplies and equipment directly from vendors, but invoices were sent to the college business office. The business office routed copies of invoices to the departments for approval, but did not require evidence of the quantity of goods actually received. Preferably, faculty and staff should sign, date and submit packing slips to the business office for payment processing. This receiving evidence should be matched to the invoice and purchase order prior to payment processing.

We are also concerned about the practice of making copies of invoices, then discarding the original invoice. Payments should not be made from a copy of an invoice. This increases the risk of duplicate payment or fraud by processing payments for multiple copies of the same invoice. In fact, we noted correspondence from one vendor alerting the college that it had received duplicate payments on several invoices.

Recommendations

- *St. Cloud Technical College faculty and staff should submit packing slips or other receiving evidence to support goods and equipment acquired. The college should match receiving evidence to the corresponding purchase order and invoice prior to payment, and resolve any differences.*
- *St. Cloud Technical College should discontinue the practice of copying invoices and discarding originals. The college should use original invoices, matched with the purchase order and receiving evidence, for payment approval.*

18. The college business office incorrectly coded many MnSCU accounting payment transactions.

St. Cloud Technical College coded many MnSCU accounting transactions with incorrect object code identifiers and obligation dates. Accounting system object codes are used to identify the functional nature and type of underlying transactions:

#2000-2999 represents services, travel, and other costs,
#3000-3999 represents material and supplies, and
#4000-4999 represents equipment.

However, several transactions were misidentified with incorrect object codes. We found that some transactions coded as supplies were actually travel reimbursements and conference fees, supply transactions were actually equipment purchases, and vice versa. College staff indicated that they coded transactions based on the department budget category rather than the actual type of purchase. As a result, the college cannot rely on the accounting system to properly identify types of spending. For example, the college purchased software totaling $24,600 which was coded as equipment.

We also noted that the business office coded incorrect obligation dates in the accounting system. Obligation dates are intended to reflect the date the goods were received or services rendered. We found that the obligation date for most transactions was the date the transaction was entered into the system. Obligation dates are critical in determining fiscal year end accounts payable for financial statement reporting purposes.

Recommendation

- *The college should assign proper object codes and obligation dates to MnSCU accounting payment transactions.*

19. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not effectively control its property and equipment.

The college did not develop sufficient controls over its property and equipment. The college maintains a fixed asset inventory log which identifies unique asset numbers attached to equipment owned by the college. However, the college did not promptly tag equipment and update the asset log timely. The log also reveals that all equipment did not have an asset number assigned and most items have not been physically inventoried. Recording and monitoring assets is critical so that physical inventory controls can provide management with an assurance that recorded assets exist and are not missing or stolen.

We noted that the asset log is not maintained timely or completely. The college did not promptly tag equipment and update the inventory log as purchases were made. As of February 1998, the college had not yet updated the log for new fixed asset purchases made during the past eight months. In addition, as mentioned in Finding 18, all equipment purchases have not been properly coded in MnSCU accounting, and as a result, these assets have not been identified and recorded in the log. We found that 45 laptop computers purchased in July and August 1996, at a cost totaling $225,578, were not recorded in the June 30, 1997 fixed asset log. We also observed that all assets in the log did not have an asset number assigned. Four assets with original costs totaling $22,090 had no corresponding asset number identified in the June 30, 1997 fixed asset log. Unrecorded or unidentified assets, especially sensitive assets such as computer equipment, are vulnerable to theft.

St. Cloud Technical College

The college has not conducted a periodic physical verification and comparison to the fixed asset records. Without such a comparison the college cannot detect lost or stolen items. Since the recording of all equipment purchases was problematic, the college should undertake a complete physical inventory to identify any unrecorded assets. Department staff could be delegated this responsibility, but at some point an independent spot-check is needed.

Recommendation

- *The college should improve control over property and equipment by:*
  - -- *assigning and affixing asset numbers to all equipment;*
  - -- *identifying and recording all property and equipment purchases; and*
  - -- *conducting periodic independent physical inventory counts to ensure that assets exist and are not missing or stolen.*

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Chapter 6. Student Financial Aid

Chapter Conclusions

The St. Cloud Technical College designed and implemented internal controls to ensure that eligible students received the correct financial aid. However, the college did not adequately separate the awarding and disbursing functions. The college did not ensure the accuracy of its records by performing key reconciliations. The college did not accurately account for the student financial aid activity on the MnSCU accounting system. In addition, the college had no written selection procedures for its Federal Work Study and Federal Supplemental Educational Opportunity Grant programs as required by federal regulations. Finally, the college did not file timely federal financial aid reports.

The St. Cloud Technical College participated in several federal student financial aid programs administered by the U.S. Department of Education. Table 6-1 summarizes program expenditures for fiscal year 1997.

Table 6-1
St. Cloud Technical College
Federal Financial Aid Expenditures
Fiscal Year 1997

CFDA Number	Program	Total Expenditures
84.032	Federal Family Loan (FFEL)	$1,772,774
84.063	Federal Pell Grant	1,021,628
84.007	Federal Supplemental Educational Opportunity Grant (FSEOG)	127,395
84.033	Federal Work Study (FWS)	118,247

Source: Auditor prepared based on information provided by St. Cloud Technical College.

St. Cloud Technical College used an automated financial aid system called SARA to package financial aid. The system packaged Pell grants, FSEOG, and Minnesota State grants based upon parameters set in the system. The college separately packaged college work study and FFEL loans. The college interfaced award detail into MSIS (Minnesota Multi-Campus Student Information System). The college adjusted awards based upon a student's actual enrollment status after the school's drop/add period. The financial aid office applied student financial aid against tuition, and the business office generated checks to the students for any excess balances.

We reviewed the Federal Pell Grant, FFEL, FSEOG, Federal Work Study, and Minnesota State Grant Programs. The following information describes the federal and state financial aid programs included in our review.

St. Cloud Technical College

- The Federal Pell Grant is the first source of assistance to eligible students. The U.S. Department of Education provides Pell Grants to the college based on eligible students enrolled. The maximum Pell Grant for a full-time student was $2,700 for the 1997-98 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, the student pays all interest that accrues on the loan.

- Federal Supplemental Educational Opportunity Grants (FSEOG) are awarded to exceptionally needy undergraduate students. The college determines a student's need based on a cost of attendance budget and expected family contribution. The U.S. Department of Education funds 75 percent of FSEOG grants and the college must provide funding for the remaining 25 percent.

- The Federal Work Study program provides part-time employment for students who continue to have financial need after receiving all available grants. Like FSEOG, the U.S. Department of Education funds 75 percent of the Federal Work Study Program and the college funds the remainder.

- The college participated in the Minnesota State Grant Program, which is funded by the Minnesota Higher Education Services Office. Eligible students must register and attend 15 credits to receive their full grant award. In fiscal year 1997, the college disbursed $816,792 of Minnesota State Grants.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that financial aid was properly paid to eligible students and accurately reported in the accounting records?

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

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

St. Cloud Technical College

Conclusions

The St. Cloud Technical College designed and implemented internal controls to ensure eligible students received the correct amount of financial aid. However, the college did not adequately separate the awarding and disbursing functions. In addition, the college did not ensure the accuracy of its records by performing key reconciliations. The college did not accurately account for the student financial aid activity on the MnSCU accounting system. The college had no written selection procedures for its Federal Work Study and Federal Supplemental Educational Opportunity Grant programs as required by federal regulations. Finally, the college did not file timely federal financial aid reports. Findings 20 though 25 discuss these weaknesses in more detail.

20. PRIOR FINDING PARTIALLY RESOLVED: St. Cloud Technical College did not adequately separate the awarding and disbursing functions over student financial aid.

Staff in the financial aid office had broad access to both the SARA and MSIS systems. The college used SARA to determine student eligibility and calculate financial aid awards. The college used MSIS to register students for classes, track student grades, and track student accounts receivable. Applying aid to student accounts receivable is the same as disbursing financial aid. The financial aid office awarded aid to students and applied that financial aid to the students' accounts receivable. This placed incompatible responsibilities on the financial aid office which should only award aid.

In addition, financial aid staff had access to certain financial aid checks. Staff in the business office allow financial aid staff unrestricted access to withheld or voided student financial aid checks. Also, the financial aid office received FFEL checks from lenders before forwarding the checks to the business office for disbursement. The majority of the lending agencies electronically transfer the FFEL funds into the college's local bank account. However, selected lending agencies did mail approximately nine percent of the students' FFEL checks to the college.

To improve internal controls and prevent potential misuse of financial aid funds, the college needs to ensure that the employees awarding financial aid do not have access to those funds. Since the last audit, the college separated the printing of student financial aid checks from the financial aid office. During fiscal year 1998, the business office staff printed and disbursed the student financial aid checks while the financial aid office awarded the aid. However, the college did not completely restrict financial aid employees' access to the financial aid checks.

Recommendation

- *The college should transfer responsibility for applying financial aid in MSIS to the business office. The college should restrict financial aid office access to FFEL loan checks.*

St. Cloud Technical College

21. St. Cloud Technical College did not ensure the accuracy of student financial aid transactions by performing key reconciliations.

St. Cloud Technical College did not reconcile student financial aid bank balances to the cash balances recorded on MnSCU accounting. The college did not reconcile the financial aid disbursements per its SARA system to the financial aid expenditures recorded on MnSCU accounting. In addition, the financial aid office did not retain copies of its reconciliation between SARA and MSIS. Periodic reconciliations between the various accounting systems and the bank ensure the accuracy of the transactions posted to these systems and reduce the risk of errors and fraud going undetected.

Recommendations

- *The college should reconcile student financial aid activity recorded in MnSCU accounting to the bank account and financial aid system.*

- *The college should reconcile SARA loan and grant disbursements to MSIS on a timely basis and retain evidence of those reconciliations.*

22. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not accurately record student financial aid in the MnSCU accounting system.

Several problems were noted with recording of student financial aid in the accounting system. We found financial aid activity that was unrecorded, recorded at the wrong amount, and recorded in the wrong fund type in the MnSCU accounting system. Without accurate and complete financial activity, the accounting system cannot be reconciled to the bank nor be used as a basis to request drawdown of federal funds.

- St. Cloud Technical College did not record $2.8 million in federal financial aid revenue and expenditures in the accounting system for fiscal year 1996. This information had to be manually captured by the MnSCU system office for compiling financial statements.

- The college recorded FFEL loans and work study expenditures in the wrong funds. FFEL loans were recorded in the miscellaneous auxiliary rather than agency-local clearing fund. Federal and state work study expenditures were inappropriately recorded in the local clearing fund. Federal work study expenditures should be accounted for in the federal financial aid fund and the state work study expenditures in the state financial aid fund. In addition, the college did not record the college's 25 percent federal work study match nor the federal work study revenues requested from the U.S. Department of Education.

- The college recorded inaccurate Minnesota State Grant revenues and expenditures in MnSCU accounting. For fiscal year 1996, state grant revenues were understated by $35,000, revenues of $549,000 were classified as state appropriations, and state grant expenditures were understated by $556,680. For fiscal year 1997, the college overstated state grant revenues by $287,972 and overstated the state grant expenditures by $11,335.

- The college incorrectly recorded federal Pell and FSEOG revenues based on the drawdown of anticipated grant disbursements rather than the actual cash received from the U.S. Department of Education. This caused cash balances and federal financial aid revenues to be understated by $1,941.

- The college classified the net payment of financial aid to students, after offset against tuition and fees, and tuition refunds as non-mandatory transfers in and out. The college should have established and reduced a liability account for both types of transactions.

- The college did not record the receipt of $12,282 for federal financial aid administrative allowance. The college received the monies from the federal government but neglected to record this revenue in the accounting system.

- Finally, the college did not record the correct occurrence dates in MnSCU accounting. The occurrence date determines which fiscal year financial statements the revenues and expenditures are reported in.

Inaccurate accounting information resulted in several administrative inefficiencies. The college could not reconcile its accounting records to bank statements. The college could not utilize accounting system balances to initiate its request for federal funds. Instead, the financial aid office requested federal funds based on expected disbursements and did not consider financial aid refunds.

Recommendations

- *The college should accurately record federal and state student financial aid activities in MnSCU accounting.*

- *The college business office should utilize MnSCU accounting system balances to initiate the request for federal financial aid funds.*

23. The college had no written selection procedures for awarding federal work study and the Federal Supplemental Educational Opportunity Grants.

The St. Cloud Technical College financial aid office did not develop and utilize written selection procedures showing how it awarded federal work study and FSEOG funds. 34CFR Section 675.10 (b) related to the selection of students for FWS employment states, "An institution shall establish selection procedures and those procedures must be uniformly applied, in writing, and maintained in the institutions files." The 1997-98 Federal Student Financial Aid Handbook states, "A school must develop written selection procedures to ensure that FSEOG recipients are selected on the basis of the lowest EFC and Pell Grant priority requirements over the entire award year in accordance with the selection provisions found in 34CFR 676.10."

Recommendation

- *The financial aid office should develop written selection procedures for awarding federal work study and FSEOG to students.*

St. Cloud Technical College

24. PRIOR FINDING NOT RESOLVED: St. Cloud Technical College did not submit federal financial aid reports timely.

The financial aid office electronically transmitted changes in the college's Pell Grant Program over 30 days late. The 1997-1998 Federal Student Financial Aid Handbook states, "Schools must report any Pell change within 30 days of the date the school becomes aware of the change, or may set up their own system to ensure that changes are reported in a timely manner." The college disbursed student financial aid, including Pell grants, weekly. The financial aid office waited 67 days before transmitting changes. Also, the college submitted the September 30, 1997, cash transaction report four days late. The deadline for submitting the report was November 14, 1997.

Recommendation

- *St. Cloud Technical College should submit federal financial aid reports within the required deadlines.*

25. St. Cloud Technical College should close out its federal Perkins Loan account.

Several years ago, St. Cloud Technical College received funding and issued Perkins Loans to its students. Since that time, the college no longer provides Perkins Loans and has not received any repayments. The college reported $2,296 in outstanding Perkins Loans on its last FISAP report filed with the federal government. Since college management foresee no future Perkins Loan activity, the college should work with the federal government to transfer or close out Perkins Loan account balances.

Recommendation

- *St. Cloud Technical College should work with the federal government to close out its federal Perkins Loan account.*

Chapter 7. Bookstore Operations

Chapter Conclusions

St. Cloud Technical College lacked controls to provide reasonable assurance that bookstore revenues and expenditures were complete, adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management authorization. Our review of the bookstore financial operations identified the following weaknesses:

- ***inaccurate and incomplete financial reporting,***
- ***inappropriate expenses charged to bookstore operations,***
- ***accounts receivable not reconciled to receipts,***
- ***lack of separation of duties over purchasing and inventory,***
- ***funds not encumbered prior to incurring an obligation, and***
- ***results of operations not adequately measured.***

The St. Cloud Technical College bookstore sells books, school supplies, clothing, and other items. A bookstore cashier enters all sales into a cash register. Students have the option of paying by cash, check, or credit card. Some students receive vouchers from external third parties, such as local school districts or other state agencies, for funding book purchases. At the end of each day, bookstore personnel reconcile receipts and vouchers with the cash register tape. A deposit ticket and receipts transaction coding form is prepared and forwarded to the business office. The business office independently compares the cash receipts to the cash register tape, deposit ticket, and the coding form. The business office deposits receipts daily into the college's local bank account and enters the revenue transactions into MnSCU accounting.

The bookstore employs a full-time bookstore manager and a part-time cashier, as well as some student workers. The bookstore manager purchases all of the supplies and materials for the bookstore. The manager generates purchase orders using a software program designed specifically for purchasing books. The software program also maintains an inventory of the books purchased and received. The bookstore manager purchases supplies and other items for resale using pre-numbered purchase orders. The manager approves vendor invoices for payment and sends a copy of the purchase order and the invoice to the business office. The business office enters the payment into MnSCU accounting and issues a check from the local bank account. Bookstore staff conduct a physical inventory count twice a year.

Audit Objective and Methodology

Our review of bookstore operations was designed 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 safeguarded, 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 manager and business office personnel to gain an understanding of the controls in place over bookstore revenues and expenses. We performed analytical reviews of financial activities and accounting system balances. We also tested a number of transactions to determine if the college had accurately recorded the transactions on the MnSCU accounting system.

Conclusions

Our review of the bookstore operations determined that the bookstore had high risk of misappropriation of assets and erroneous financial reporting. We found that the financial activity recorded in MnSCU accounting was inaccurate and incomplete, that some inappropriate expenses were charged to bookstore operations, that accounts receivables were not reconciled to receipts, that there was a lack of separation of duties over purchasing and inventory, that funds were not encumbered before obligations were incurred, and that the results of operations are not adequately measured.

26. The college lacked controls to ensure the accuracy of bookstore financial activity recorded on MnSCU accounting.

We found that St. Cloud Technical College did not effectively monitor and control bookstore operations using MnSCU accounting. The college did not establish and monitor reasonable revenue and expense budgets. The college did not perform key reconciliations to the local bank account. In addition, bookstore management did not receive and review MnSCU accounting reports. Finally, the business office coded some transactions to the wrong object codes.

Our main concern about the overall lack of budgetary control is discussed in Chapter 2. We noted two specific budget concerns with bookstore operations. In fiscal year 1996, the budget variances were large in relation to actual revenue and expenses. No one investigated or resolved these variances. In addition, in fiscal year 1997, the budget established for bookstore revenue and expenses provided for deficit spending. Budgeted revenue and expenses were $750,000 and $800,000, respectively, resulting in a planned deficit of $50,000. MnSCU accounting reports indicate that in fiscal year 1997, the bookstore incurred a loss of $113,732. However, as explained in Finding 27, the college charged some inappropriate expenses to the college bookstore. These expenses contributed to the operating loss reported in fiscal year 1997.

During the audit period, the business office did not perform reconciliations between MnSCU accounting records and bank balances, as previously discussed in Chapter 2. These reconciliations provide assurance that bookstore deposits and withdrawals agree with the revenue and expense transactions recorded in the accounting records. In the absence of these reconciliations, the college does not have that assurance.

The bookstore manager did not receive or review MnSCU accounting reports during the audit period. This review would provide assurance that accounting records are complete and accurate, and recorded transactions are authorized by management. These reports can also be used to monitor the budget. Since the bookstore manager did not review accounting reports during the audit period, errors occurred and were not detected in a timely manner. In fiscal year 1997,

$63,500 of revenue was posted to the wrong cost center. The error went undetected for over two months. The business office inadvertently corrected the error twice, which required another correction to adjust the revenue amount. Also, as discussed in Finding 27, the business office charged unrelated expenses to the bookstore without the bookstore manager's knowledge.

The business office misclassified receipts paid by third party agencies for program vouchers as private grant revenue. Object code classification in MnSCU accounting is intended to provide information about the source of a transaction. The business office did not code the revenue to properly reflect the underlying financial transaction, a sale of books or other merchandise. Bookstore sales were understated by $96,868 in fiscal year 1996, and $35,587 in fiscal year 1997. Sales were miscoded as private grant revenue in the bookstore accounts.

Recommendation

- *St. Cloud Technical College should improve the recording of bookstore financial activity in MnSCU accounting by:*
  - -- *establishing reasonable budgets and comparing them to actual bookstore revenue and expenses;*
  - -- *routing MnSCU accounting and budget reports to the bookstore manager for review and approval;*
  - -- *performing key reconciliations of the accounting system to bank balances and activities; and*
  - -- *assigning object codes that portray meaningful information about underlying financial activities.*

27. St. Cloud Technical College charged inappropriate expenses to the bookstore.

We question the propriety of certain expenses charged to the college bookstore. Foundation payroll costs, bank overdraft charges, college-wide postage, and other expenses were charged to the bookstore, although they had no association with bookstore operations. The bookstore manager was not aware of many of these charges and was under the impression that the bookstore was operating at a profit.

During fiscal year 1997, St. Cloud Technical College charged $32,500 of payroll costs, related to the St. Cloud Technical College (SCTC) Foundation, to the bookstore. The SCTC Foundation employee had nothing to do with bookstore operations. During fiscal year 1997, these expenses contributed to the bookstore's operating loss of $113,372. For fiscal year 1996, we noted that the college charged $20,872 of Foundation payroll expense to the parking cost center. Parking expenses for fiscal year 1996, including Foundation payroll, exceeded revenue by $139,919. We noted correspondence on file indicating that the college president at the time directed that the SCTC Foundation payroll costs be charged to the enterprise activities.

Expenses charged to enterprise activities, such as parking and the bookstore, should be directly related to the operations of those activities. The annual amount paid by the SCTC Foundation to the college or its students does not directly benefit the bookstore. These payroll expenses should have been charged to the college's general fund account.

St. Cloud Technical College

We noted $34,578 in other questionable expenses charged to the college bookstore in fiscal years 1996 and 1997, as shown in Table 6-1.

Table 6-1
St. Cloud Technical College
Bookstore Questionable Costs
Fiscal Year 1996 and 1997

FY96 Questionable Costs	Description	FY97 Questionable Costs	Description
$ 5,000	postage	$10,716	system assessment
4,468	imprest cash reimbursements	9,000	computer services
2,000	bank overdraft charges	1,294	software
946	unknown vendors	1,154	food
$12,414	Total	$22,164	Total

Source: Auditor prepared from bookstore accounting transactions and campus payment documentation.

In addition to the amounts noted above, we also noted that the bookstore paid all linen supply invoices for the college, even though some of the charges were incurred by other cost centers. The linen supply vendor was paid over $17,000 in fiscal year 1996 and over $18,000 in fiscal year 1997. The college neglected to allocate costs attributable to other cost centers and funded the entire invoices from the bookstore.

The business office charged expenses to the bookstore without the knowledge or authorization of the bookstore manager. Since the manager was not provided MnSCU accounting reports, reliance was placed on subsidiary records maintained by bookstore staff. These subsidiary records indicated the bookstore was operating at a profit. The bookstore manager was surprised to discover that MnSCU accounting showed an operating loss for fiscal year 1997. The bookstore manager was also not aware of many of the questionable expenses posted to the bookstore accounts.

St. Cloud Technical College cannot effectively evaluate the results of operations for its enterprise activities when it allocates unrelated expenses to those activities. Finding 28 further discusses measuring the results of operations of enterprise activities. Enterprise activities generate revenue from sales and funds are maintained in a local checking account. It is tempting for management to charge expenses to these activities instead of the General Fund in order to conserve state appropriations and tuition revenue.

Recommendations

- *The St. Cloud Technical College bookstore manager should authorize all expenses charged to the bookstore. Costs that benefit other cost centers of the college should be allocated to those cost centers based on benefits received.*
- *St. Cloud Technical College should charge SCTC Foundation payroll costs to the general fund not enterprise accounts.*

St. Cloud Technical College

28. The college did not effectively measure operating results for the bookstore or other enterprise activities.

St. Cloud Technical College did not prepare financial statements to assess the status of financial activities for its bookstore or other enterprise funds. The college did not accrue operating expenses on MnSCU accounting system to produce a meaningful income statement for the bookstore operation. The bookstore is an enterprise fund that should account for operations in a manner similar to private business. An income statement should include a measurement of cost of goods sold and overhead, such as rent, utilities, depreciation and administrative services, provided by the college.

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

Recommendation

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

29. The college bookstore does not reconcile receipts to outstanding accounts receivable.

The bookstore established accounts receivable when students purchased books and supplies using credit cards and program vouchers. The bookstore maintained records of daily credit card charges and program vouchers, and reported the charges to the business office. Credit card companies reimburse the college by making electronic deposits directly to the college's local bank account. The business office reconciles these electronic receipts with the business office cashier and bookstore records. The business office also collects receipts from funding agencies for tuition and books charged on vouchers. The business office enters credit card and voucher revenue transactions in MnSCU accounting.

The business office did not report revenue collections to the bookstore manager nor did the manager reconcile receipts with subsidiary accounts receivable records. This increased the risk that not all revenue earned by the bookstore was allocated to and recorded in the bookstore cost center. In fiscal year 1996, the business office did not allocate revenue from local school districts between the appropriate cost centers. The business office allocated $339,964 entirely to college-wide revenue instead of determining the bookstore's share. The risk is high that other errors occurred but were not detected.

Recommendation

- *St. Cloud Technical College should reconcile bookstore receipts to accounts receivable.*

St. Cloud Technical College

30. The bookstore does not have an appropriate separation of duties over purchasing and inventory functions.

The bookstore manager is responsible for purchasing, receiving, and authorizing vendor invoice payments for all bookstore supplies and merchandise. This employee is also responsible for maintaining bookstore inventory records and supervising physical inventory counts. Ideally, these duties should be separated, or at least, subject to periodic independent review.

Recommendation

- *St. Cloud Technical College should separate purchasing and inventory responsibilities, or provide an independent review.*

31. The college did not encumber bookstore funds before incurring obligations.

St. Cloud Technical College did not encumber funds prior to incurring obligations for bookstore purchases. The bookstore manager purchased books and supplies directly from vendors. However, purchase orders were not sent to business office to encumber commitments in MnSCU accounting at the time of purchase. The business office encumbered funds after goods were received and the invoice was submitted and approved for payment.

The bookstore manager kept subsidiary records of all purchases and outstanding obligations for the bookstore. By not encumbering commitments at the time of procurement, the college increased the risk that sufficient funds would not be available to pay for the purchase. In, addition, without recording unpaid obligations in MnSCU accounting, system balances do not reflect all bookstore liabilities and expenses at fiscal year-end.

Recommendation

- *St. Cloud Technical College should ensure bookstore purchases are encumbered in MnSCU accounting at the time of procurement and before obligations are incurred.*

Status of Prior Audit Issues As of February 13, 1998

Most Recent Audit

<u>**The June 6, 1997, Legislative Audit Report 97-29**</u> covered the fiscal year ended June 30, 1996. That audit scope included material federal financial aid programs administered by Minnesota State Colleges and Universities (MnSCU). We audit the federal financial aid programs on an annual basis, as part of the Single Audit of the state's federal grant contributions. The college had no reportable issues.

Other Audit History

<u>**The August 21, 1996, Legislative Audit Report 96-35**</u> covered the fiscal year ended June 30, 1996. The focus of this report was the transition of technical colleges into Minnesota State Colleges and Universities (MnSCU) and the State of Minnesota. This report included fifteen reportable issues directly related to St. Cloud Technical College. Many of these issues were not resolved at the time of our current audit. The unresolved issues are included in the current report as Findings 3, 4, 7, 19, 20, 22 and 24.

Other Audit Coverage

Prior to the MnSCU merger, Independent School District No. 742 employed a CPA firm each year to examine its financial records and provide an opinion on the school district's financial statements. These financial statements included financial activities pertaining to the technical college. The firm's most recent report covered the fiscal year ended June 30, 1995, and was dated August 25, 1995. As part of the audit, the firm issued a management letter which contained one issue regarding the recording of fixed assets. See our current Finding 19.

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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ST. CLOUD TECHNICAL
COLLEGE
Golden Opportunities
1948 - 1998

June 19, 1998

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

Dear Mr. Nobles:

Thank you very much for the opportunity to respond to the audit recently completed at St. Cloud Technical College covering the period July 1, 1995 through June 30, 1997. The audit findings are very serious. I have pledged full commitment of time and talent to resolving all audit concerns as expeditiously as possible as well as, developing and implementing an administrative infrastructure to prevent reoccurrence.

Listed below is our response to each individual finding:

1. SCTC lacked effective monitoring and budgetary controls to ensure it operated within available resources.

On April 13, 1998, the Director of Finance resigned his position effective August 23, 1998 and has since been assigned other duties. The Interim Business Manager, Carolyn LeBlanc, CPA, was appointed on April 29, 1998. Systems assistance has been sought to devise a budget approach for FY99 which will reflect heightened control over institution spending. A procedures handbook is being finalized. Access to spending ability has been restricted, more user-friendly reports are being prepared and user training in reading and analyzing those reports will be scheduled beginning in late July. In addition, cost center spending will be monitored monthly by the President, Vice Presidents, Deans and the Business Manager and an intervention procedure will be developed.

Responsible parties: President, Vice Presidents, Deans and Business Manager
Implementation date: July 1, 1998

2. SCTC did not properly record its financial activities in MnSCU accounting.

A two-pronged approach to correct this finding is being used:

1. Reconciliations of cash accounts for FY96 and FY97 is near completion.
2. A series of check lists is being prepared to assist in correctly entering financial information in a timely manner.

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In addition, a review of FY98 coding has begun for selected object codes and Business Office staff members are being retrained in correctly using the Chart of Account and other accounting documentations.

Responsible party: Business Manager
Implementation date: July 1, 1998

3. SCTC did not verify the accuracy of accounting records through key reconciliations.

The reconciliation of key financial systems will be done on a timely basis with adjustments made promptly as needed.

Responsible party: Business Manager
Implementation date: July 1, 1998

4. SCTC did not adequately separate financial duties.

Incompatible duties have been identified with assistance from MnSCU internal auditing staff; accounting duties among staff have been separated to provide appropriate checks and balances.

Responsible party: Business Manager; Financial Aid Director
Implementation date: Completed

5. College security controls over the ability to access and update MnSCU accounting and SCUPPS personnel/payroll system transactions require improvement.

Access controls have been restricted on the basis of job responsibilities. User system reports will be periodically obtained and reviewed for accuracy.

Responsible party: Director of Human Resources
Implementation date: Completed

6. College controls over cash receipts, bank deposits, and transfers were inadequate.

Access to cash receipts has been restricted; night deposit boxes have been ordered. Cash receipts will be independently counted to ensure accuracy. Any deposit discrepancies noted by the bank will be immediately investigated and recorded. Effective July 1,1998, SCTC will consolidate its four bank accounts into one.

Responsible party: Business Manager
Implementation date: Completed

7. St. Cloud Technical College did not verify the accuracy and completeness of tuition collections.

A template is being prepared to allow accurate reconciliation of tuition receipts to billable credits. Reconciliation of receipts to tuition sold will be conducted as appropriate.

Responsible party: Business Manager; Registrar
Implementation date: August 1, 1998

8. The college did not adequately separate duties over tuition receivables, and access to MSIS was not controlled.

Duties among authorized staff have been separated to provide a system of checks and balances; access to MSIS has been restricted based on job function.

Responsible party: Business Manager
Implementation date: Completed

9. Tuition collections at places other than the Business Office are not effectively controlled.

Night deposit boxes are being installed in two key locations.

- One deposit box will be located in the front lobby outside of the Business Office.
- One deposit box will be located in the Customized Training area.

Responsible party: Vice President, Administrative Affairs
Implementation date: August 15, 1998

10. The college understated tuition revenue by misrecording the state match for Federal Supplemental Educational Opportunity Grants (FSEOG).

New financial aid transaction lead sheets have been prepared to ensure proper recording of FSEOG. A detailed analysis of financial aid transactions involving FSEOG will be completed prior to June 30, 1998 and an adjusting entry made to correct FY98.

Responsible party: Business Manager
Implementation date: June 30,1998

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

Adequate documentation for all payroll transaction is required and is being monitored.

Responsible party: Director of Human Resources; Payroll Clerk; Business Manager
Implementation date: Completed

12. The college did not reconcile the detail transactions in the payroll systems.

Business office staff are currently reconciling SCUPPS to SEMA4 by payroll. Reconciliations for prior periods is being systematically addressed. Overpayments to excluded administrators will be collected by July 2, 1998.

Responsible party: Business Manager; Payroll Clerk
Implementation date: July 2, 1998

13. The college overstated enterprise payroll expenses in MnSCU accounting.

Inappropriate enterprise fund payroll expenses have been identified and will be corrected before June 30, 1998 to reflect only appropriate employees.

Responsible party: Business Manager
Implementation date: June 30, 1998

14. The college maintained inaccurate leave records for two excluded administrators.

Leave balances for two excluded administrators have been corrected. Appropriate controls to ensure the accuracy for such administrators have been developed.

Responsible party Director of Human Resources
Implementation date: Completed

15. College purchases lacked authorizations and staff incurred obligations prior to encumbering funds.

A procedures manual has been developed which outlines authorized signatures required on all requisitions. Full access to the PCS system has been restricted to Business Office personnel. All staff members involved in this purchasing will be instructed in proper purchasing procedures and the consequences for failure to follow such procedures. Business Office staff members have been instructed to enforce those procedures and have full backing of institution management.

Responsible party: Business Manager
Implementation date: Completed

16. The college did not adequately separate purchasing and accounts payable responsibilities.

Duties have been reassigned to ensure segregation between purchasing and accounts payable.

Responsible party: Business Manager
Implementation date: Completed

17. The college business office did not effectively document that supply or equipment purchases were received.

In accordance with the accounting procedure manual being prepared, packing slips or other receiving evidence in support of the receipt of the goods/equipment will be forwarded to the Business Office. The college is currently investigating establishing a receiving department to receive and inspect all supplies and equipment.

Responsible party: Business Manager
Implementation date: July 1, 1998 (procedure manual)

18. The college business office incorrectly coded many MnSCU accounting payment transactions.

Business office employees have been retrained in object code identification and reminded of the importance of correctly coding transactions. Abbreviated object code sheets have been circulated to all purchasers at the college along with a memo outlining the implications of incorrect coding. Accounts payable clerk has been instructed to return all requisitions not showing proper object code. Training in this area will be ongoing.

Responsible party: Business Manager
Implementation date: June 30, 1998 (and ongoing)

19. St. Cloud Technical College did not effectively control its property and equipment.

The college is currently in the process of conducting a complete physical inventory which will be completed by September 30, 1998.

Responsible party: Vice President, Administrative Affairs
Implementation date: September 30, 1998

20. St. Cloud Technical College did not adequately separate the awarding and disbursing functions over student financial aid.

Duties have been reassigned to ensure separation of the awarding and disbursing functions between the Business Office and Financial Aid Office.

Responsible party: Business Manager; Director of Financial Aid
Implementation date: Completed

21. St. Cloud Technical College did not ensure the accuracy of student financial aid transactions by performing key reconciliations.

Reconciliations of financial aid bank balances to the cash balances recorded on MnSCU accounting are being finalized. Reconciliations of SARA balances to the cash balances recorded on MnSCU accounting are also being finalized and all documentation will be retained. A reconciliation schedule for all institution processes is being collaboratively developed to ensure that appropriate checks of accounts occur at appropriate intervals.

Responsible party: Business Manager
Implementation date: July 1, 1998

22. St. Cloud Technical College did not accurately record student financial aid in the MnSCU accounting system.

Reconciliations are nearly completed for state financial aid accounts and federal financial aid grant reconciliation is completed. The Business office and Financial Aid office has scheduled joint meetings to prepare a flow chart of the Financial Aid process. This flow chart will be used as the basis for identifying incompatible duties and developing a procedure to ensure all accounting entries are made timely.

Responsible party: Business Manager
Implementation date: July 1, 1998

23. The college had no written selection procedures for awarding federal work study and the Federal Supplemental Education Opportunity Grants.

Written selection procedures have been prepared.

Responsible party: Director of Financial Aid
Implementation date: Completed

24. St. Cloud Technical College did not submit federal financial aid reports timely.

The college will submit federal financial aid reports in a timely manner.

Responsible party: Director of Financial Aid
Implementation date: Completed

25. St. Cloud Technical College should close out its federal Perkins Loan account.

The college will work with the federal government to close out this account.

Responsible party: Director of Financial Aid
Implementation date: July 1, 1998

26. The college lacked controls to ensure the accuracy of bookstore financial activity recorded in MnSCU accounting.

The recording of bookstore financial activity in MnSCU accounting has been improved as follows:

- Reasonable budgets have been developed allowing appropriate monitoring by management.
- Monthly financial reports are routed to the bookstore manager.

In addition, a permanent part-time employee has been hired whose duties include performing key reconciliations of the accounting system to bank balances as well as ensuring the accuracy of account coding in the bookstore.

Responsible party: Business Manager; Bookstore Manager
Implementation date: July 1, 1998

27. St. Cloud Technical College charged inappropriate expenses to the bookstore.

The bookstore will be treated as a single enterprise and no expenses not directly related to its activities will be charged to this cost center. No charges will be made to the bookstore without the authorization of the bookstore manager.

Responsible party: Business Manager; Bookstore Manager
Implementation date: Completed

29. The college bookstore does not reconcile receipts to outstanding accounts receivable.

The newly hired permanent part-time employee will be charged with reconciling receipts to outstanding accounts receivable.

Responsible party: Business Manager; Bookstore Manager
Implementation date: August 17, 1998

30. The bookstore does not have an appropriate separation of duties over purchasing and inventory functions.

Staff members of the Business Office will conduct spot checks (based on high dollar value) of bookstore inventory.

Responsible party: Business Manager; Bookstore Manager
Implementation date: July 1, 1998

31. The college did not encumber bookstore funds before incurring obligations.

The new bookstore employee will be responsible for entering purchase orders in PCS to ensure prompt encumbering of funds.

Responsible party: Business Manager; Bookstore Manager
Implementation date: July 1, 1998

We want to thank you for this opportunity to share the improvements we have made since the conclusion of the audit and our plans to implement your recommendations. Your comments and suggestions are most appreciated.

Sincerely,

Joan B. Barrett
President