South Central Technical College
Financial Audit

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

October 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-59

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

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Kenneth Mills, President
South Central Technical College

We have audited selected areas of South Central Technical College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included tuition and fees, customized training, employee payroll, administrative expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid requirements for fiscal year 1998. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

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

We have prepared this report for the information of the Legislative Audit Commission, the management of South Central Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. We do not, however, limit the distribution of this report, which was released as a public document on October 8, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 12, 1998

Report Signed On: October 5, 1998

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SUMMARY

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South Central Technical College

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

Public Release Date: October 8, 1998 No. 98-59

Background Information

South Central Technical College (the college), a part of the Minnesota State Colleges and Universities (MnSCU) system, is a two-year college whose mission is to provide quality higher education for employment and continuous learning. The college has two campuses, located in Mankato and Faribault. For the 1996-97 school year the full-time equivalent student population at the college was 2,346. Dr. Kenneth H. Mills serves as president of the college.

Scope and Conclusions

Our audit covered the period from July 1, 1995, through June 30, 1997. We audited general financial management controls, tuition and fee revenue, payroll expenditures, bookstore revenues and expenditures, and operating expenditures. We reviewed the college's internal controls over federal student financial aid for fiscal year 1998. In addition, we reviewed the college's relationship with its foundation.

Generally, the college operated within its available resources. Generally, it recorded its financial activities on the MnSCU and MAPS accounting systems in a timely manner, and adequately safeguarded and accurately reported in the accounting records money held in local bank accounts. However, the college did not transfer some tuition and fee receipts to the state treasury in a timely manner, and needed to improve its computer system security practices.

The college had significant control weakness in its receipt process. The college did not adequately separate incompatible duties, verify the accuracy of its bank deposits, control voided or refund transactions, or adequately safeguard its receipts and bookstore inventory.

The college accurately reported payroll expenditures in the accounting records. However, it did not consistently determine retroactive adjustments for some employees, and did not perform an independent verification of payroll data.

The college managed its federal student financial aid programs in compliance with applicable legal requirements.

The college had several weaknesses in its purchasing process. Also, the college had not completed a fixed asset inventory since 1994, and the college's fixed asset records contained errors and omissions. The Mankato bookstore had not adequately separated incompatible duties.

South Central Technical College agreed with the findings and is taking corrective action.

South Central Technical College

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Pat Ryan	Auditor-In-Charge
Eric Wion, CPA	Auditor
Connie Stein	Auditor
Anna Lamin	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of South Central Technical College and the MnSCU system office at the exit conference held on September 25, 1998:

MnSCU System Office:	
Laura King	Vice Chancellor – Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
Marilyn Hansmann	MnSCU Internal Audit
South Central Technical College:	
Kenneth Mills	President
Richard Straka	Vice President of Finance and Operations

Chapter 1. Introduction

South Central Technical College (the college) is a two-year college whose mission is to provide quality higher education for employment and continuous learning. The college currently has two campuses, located in Mankato and Faribault. Prior to the formation of the Minnesota State Colleges and Universities (MnSCU) system, in July 1995, the campuses were aligned with their local school districts. Initially, the South Central Technical College consisted of the former Mankato and Albert Lea technical colleges. Effective July 1, 1996, MnSCU redefined the college to include the Faribault campus, and linked the Albert Lea campus to the Riverland Community College. For the 1996-97 school year the full-time equivalent student population at the college was 2,346. Dr. Kenneth H. Mills serves as president of the college.

The college offers degree, certificate, and diploma programs in the following areas:

- general education,
- agribusiness and management,
- business,
- health fields, and
- technical and industrial areas.

In addition to its regular programs, the college's Center for Continuous Learning customizes educational programs to meet the training needs of regional business and industry. The college also offers continuing education courses to the general public.

The South Central Technical College is affiliated with two foundations that provide student scholarships and support certain campus activities. The college has formal signed contracts with the South Central Technical College - Mankato Campus Foundation and the Faribault Vocational Technical Trust Association Foundation. The contracts outline the duties and responsibilities of both parties. The college provides administrative support to the foundations.

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

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

	General Fund	Special Revenue Funds	Enterprise Funds
Beginning Fund Balance	$ 398,574	$ 52,264	$ 238,610
State Appropriation	10,578,820	0	0
Revenues			
Tuition and fees	$ 4,969,968	$ 115,505	$ 0
Sale of goods	208,785	0	951,454
Grants	821,033	4,063,123	0
Other	440,672	38,952	92,035
Subtotal Revenues	$ 6,440,458	$4,217,580	$ 1,043,489
Total Resources	$17,417,852	$4,269,844	$ 1,282,099
Expenditures			
Employee payroll	$11,265,937	$ 345,243	$ 266,379
Supplies	904,264	149,909	650,490
Equipment	681,621	36,234	2,125
Other Communication	679,401	0	0
Student Financial Aid	49,609	3,381,956	0
Other	2,273,126	252,985	87,572
Total Expenditures	$15,853,958	$4,166,327	$1,006,566
Ending Fund Balance (1)	$ 1,563,894	$ 103,517	$ 275,533

(1) South Central Technical College has reserved over $400,000 of the ending fund balance for future commitments, such as repairs and betterments, costs associated with the conversion to semesters, faculty travel costs, and customized training.

Note: Table 1-1 is prepared on the budgetary basis of accounting. Thus, the table does not include long-term assets and liabilities. Examples of financial activity not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1997, compensated absence liability was estimated to be about $967,987.

Source: MnSCU General Ledger Accounting System as of April 3, 1998.

Chapter 2. Financial Management

Chapter Conclusions

Generally, the college designed and implemented internal controls to provide reasonable assurance that it:

- ***operated within its available resources and in compliance with legal requirements and management's authorization,***
- ***recorded its financial activities on the MnSCU and MAPS accounting systems in a timely manner, and***
- ***adequately safeguarded and accurately reported in the accounting records money held in local bank accounts.***

We found, however, that the college did not transfer tuition and fee receipts to the state treasury in a timely manner. We also found that the college did not adequately restrict computer security clearances and allowed employees to share logon IDs and passwords.

South Central Technical College operated under the direction of its president, Dr. Kenneth Mills. The college's administration also included the Vice-President of Finance and Operations, the Financial Aid Director, and the Personnel Director, who served both the Mankato and Faribault campuses. The financial operations at the two campuses were generally similar.

The college had the following bank accounts during the audit period:

- The Accounts Receivable account, located in Mankato, was the college's state depository account. This was the account where all daily cash receipts (except for financial aid receipts) were deposited. The State Treasurer swept tuition and fee revenue from this account when the college entered receipt transactions into MnSCU accounting. Finding 1 describes the college's delay in transferring some tuition receipts to this account.

- The college's Accounts Payable checking account was a clearing account for all of its local check writing. The college kept a $1 balance in the account. The Mankato bank transferred funds into this account from the college's Accounts Receivable account to honor the college's local checks as they cleared the bank.

- The college had a Student Payroll account at a Mankato bank that it used to pay students involved in the state and federal work-study programs.

- The Faribault campus had a local bank account. All receipts collected at this campus were deposited into this local account. Although this was not a state depository account, the Faribault campus periodically wrote checks payable to the Mankato Accounts Receivable account to cover the treasury sweeps initiated by Faribault's entries into MnSCU accounting.

- The fifth account was the Federal Trust and Agency account in Mankato. All financial aid receipts and disbursements were run through this account.

The college recorded its local bank and state treasury financial activity on the MnSCU accounting system. MnSCU accounting posted summary information to the state's Minnesota Accounting and Procurement System (MAPS) through a system interface. MAPS generated state treasury warrants from the information derived from the system interface.

Although the college traced bank statement transactions to manual records for each of its bank accounts on a monthly basis, it only reconciled bank cash balance to MnSCU accounting at the end of each fiscal year. Starting in February 1998, at the direction of the MnSCU central office, the college began completing this reconciliation on a monthly basis.

The college used the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage payroll and personnel functions for its employees. The information from SCUPPS also fed into the state's payroll/personnel system, the State Employee Management System (SEMA4). Finding 2 describes a weakness in the college's administration of system security.

Budgetary Controls

The MnSCU system office distributed appropriated funds to the college based on an allocation formula. The college used this allocation amount, as well as its tuition revenue estimates, to determine the basis for its annual budget. In order to budget expenditures, the college reviewed its prior year expenditures and its anticipated needs for the upcoming year.

The college used the MnSCU accounting system to monitor its revenues and expenditures throughout the year. The Vice President of Finance and Operations set up the college budget on MnSCU accounting in individual cost centers. To monitor individual programs and cost center budgets, the Vice President and program support staff reviewed monthly budgetary summary reports and detailed transaction reports. When necessary, business office employees initiated budget modifications or transfers among cost centers. We noted, however, that as of April 3, 1998, the college had not yet posted its fiscal year 1998 state appropriation to the MnSCU accounting system.

When the college made the transition into the MnSCU system, it faced a significant shortfall in funding and revenue. Our report, "Transition of Technical Colleges into State Government," dated August 26, 1996, identified a deficit in the college's governmental funds at June 30, 1995, of nearly $1 million, with an overall deficit of almost $600,000. Table 1-1, in Chapter 1, shows that the college's financial health has greatly improved. As of June 30, 1997, the college's general fund ending fund balance was $1,563,894; fund balances in other funds were also positive.

Audit Objectives and Methodology

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

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

- Did the college design and implement internal controls to provide reasonable assurance that money held in local bank accounts was adequately safeguarded and accurately reported in the accounting records?

- Did the institution design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

To answer these questions, we interviewed college staff to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the areas we audited. We reviewed the transactions posted to MnSCU accounting to determine if the college properly recorded revenue and expenditure transactions for both state treasury and local bank account activities. Finally, we reviewed the fiscal year 1998 reconciliations between MnSCU and MAPS transactions and between MnSCU accounting and the monthly bank statements.

Conclusions

Generally, the college designed and implemented internal controls to provide reasonable assurance that it:

- operated within its available resources and in compliance with legal requirements and management's authorization;
- recorded its financial activities on the MnSCU and MAPS accounting systems in a timely manner; and
- adequately safeguarded and accurately reported in the accounting records money held in local bank accounts.

As explained in Finding 1, we found that the college did not transfer tuition and fee receipts to the state treasury in a timely manner. We also found that the college did not adequately restrict computer security clearances and that employees shared logon IDs and passwords.

1. PRIOR AUDIT FINDING NOT RESOLVED: South Central Technical College did not transfer financial aid tuition receipts to the state treasury promptly.

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

The college typically drew down federal funds three days before the financial aid disbursement date (at the end of the drop/add period). On the financial aid disbursement date, the college credited the students' accounts for tuition, fees, and other charges and disbursed the remaining portion to the students. However, the college did not transfer financial aid funds used to pay tuition to the state treasury on the disbursement date. Table 2-1 shows the Mankato campus' delay in transferring the funds to the state treasury during the 1996-97 school year. Similar delays occurred at the Faribault campus.

Table 2-1
Mankato Campus Financial Aid Transfer Delays

Quarter	Financial Aid Disbursement Date	Transfer Date	Number of Days Delay (1)	Transfer Amount
Fall 1996	September 26, 1996	November 8, 1996	43	$276,977
Winter 1997	January 22, 1997	February 28, 1997	37	$465,531
Spring 1997	April 10, 1997	April 22, 1997	12	$408,968

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

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

The business office did not record the financial aid disbursements timely due to inadequacies in the college's student registration system. The system's limitations made it difficult to accurately determine the breakdown between state tuition and fee receipts and locally held fees (such as the fees collected for student organizations) in a timely manner. The college converted to MnSCU's new student registration system in July 1998.

Recommendations

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

2. South Central Technical College did not adequately limit computer system access and allowed employees to share logon IDs and passwords.

South Central Technical College did not adequately limit access to automated personnel and payroll functions. The college gave human resource and payroll employees full access to both the SCUPPS personnel system and the SEMA4 payroll system. The SCUPPS system processed personnel transactions, while the SEMA4 system processed payroll transactions. With unlimited access to both of these systems an employee could make unauthorized personnel changes to SCUPPS and perform unauthorized payroll transactions in SEMA4.

We also found that college employees shared logon IDs and passwords with student workers. Employees in the payroll unit and business office allowed student workers to use their passwords to access the SEMA4 payroll system and the MnSCU accounting accounts payable functions.

South Central Technical College

To prevent and detect errors and irregularities, the college should segregate the ability to perform personnel transactions and process payroll. Also, employees should not share logon IDs and passwords.

Recommendations

- *The college should review computer system access and limit access to the minimum required for staff to perform specific job functions.*

- *The college should not allow employees to share computer system logon IDs and passwords.*

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Chapter 3. Revenues

Chapter Conclusions

We noted significant control weaknesses in South Central Technical College's receipt process. We found the college did not verify that total receipts collected were deposited and posted to the registration and accounting systems, and that it did not adequately safeguard its receipts and bookstore inventory.

For the items tested, the college complied with applicable finance-related legal provisions, except that the college did not transfer certain tuition receipts to the state treasury in a timely manner, as discussed in Chapter 2.

Credit-Based Tuition and Fee Revenue

In fiscal year 1997, 87.5 percent of the college's tuition and fee receipts were for credit-based courses. The college used the Minnesota Multi-Campus Student Information System (MMSIS) to record credit-based registrations, billings, and collections. MMSIS determined the total tuition due based on class registrations. Students paid their tuition and fees at the bookstores, which served as each campus' cashier. For fiscal year 1996, a typical student paid $40 per credit, plus miscellaneous fees. The tuition rate increased to $41.60 per credit for fiscal year 1997.

Customized Training

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education courses and contract training courses. The college offered continuing education courses to the general public, while it developed contract training courses to meet the educational needs of a specific business or industry. The college used various systems to register students in customized training courses. Customized training revenue accounted for 12.5 percent of the college's tuition and fee revenue in fiscal year 1997.

Bookstore Revenue

The college operated a bookstore on each campus to sell textbooks, supplies, clothing, and other miscellaneous items to its students. Bookstore revenues totaled about $959,000 for the year ended June 30, 1997.

The Mankato bookstore has a manager who supervises two full time staff. One person operates the Faribault bookstore. The bookstore staff collected, recorded, and prepared for deposit all types of receipts, including tuition, fees, and customized training. The bookstore staff forwarded daily receipt information to the business office staff, who used the information to reconcile the college's monthly bank statements. Finding 3 discusses weaknesses in this reconciliation process.

Audit Objectives and Methodology

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

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

- Did South Central Technical College comply with applicable legal provisions?

To meet these objectives, we interviewed college employees to gain an understanding of controls over tuition, fees, customized training, and bookstore receipts. We reviewed student registration and account receivable records, bookstore documentation, and MnSCU accounting records to determine if South Central Technical College charged students appropriate rates, collected earned revenue, and properly recorded tuition, fees, customized training and bookstore revenue transactions in MnSCU accounting. We also reviewed bank deposit documentation to determine if South Central Technical College complied with applicable legal provisions.

Conclusions

We found significant control weaknesses, as discussed below, over South Central Technical College's receipt procedures. For the items tested, the college complied with applicable finance-related legal provisions, except, as discussed in chapter two, the college did not transfer certain tuition receipts to the state treasury in a timely manner.

3. PRIOR AUDIT FINDING NOT RESOLVED: The college's control procedures did not ensure that all receipts collected were deposited and posted to the registration and accounting systems.

The college did not segregate incompatible receipt duties, document certain transactions, nor perform key reconciliations to ensure that all collected receipts were deposited and posted to the registration and accounting systems.

- The college allowed registration and customized training staff to register continuing education students, collect their tuition payments, and post the payments to the registration system. These duties are incompatible since staff could change the registration data to hide a misappropriation of tuition funds. Colleges often prevent this weakness in the control system by separating the registration responsibilities from the cashiering and accounts receivable responsibilities. Alternatively, the college could detect material errors or irregularities through reconciliations of the tuition received to the registration and accounting systems. We found, however, as noted below, that the college's reconciliation process was also not effectively performed.

- The college did not document, for management's review, the circumstances surrounding the bookstore's void and refund transactions. Voids and refunds are sensitive transactions because they decrease cash collections. Since the cash register tape is the college's first record of receipts, any changes to this first record (for example, due to voids or refunds) should be authorized and documented. The lack of documentation and independent review of these transactions increased the risk that voided or refund transactions could conceal the theft of funds.

- The business office did not verify that the receipts recorded on the daily cash register tapes were actually deposited in the bank. To adequately verify the accuracy of each day's bank deposits, the business office should trace the bank deposit to a source document, such as a cash register tape. Instead, the business office staff relied upon the bookstore managers' recaps of receipt information. Out of twenty days reviewed, we found three days where the submitted recap information did not agree with the cash register tape. In each instance the bank deposit was less than the receipts recorded on the cash register. Although the differences on these three days were small ($13, $50, and $60), they highlight the risk that a material error could occur without detection.

- The college did not reconcile the customized training receipts to the payments posted to the registration systems and MnSCU accounting. Although performing these reconciliations may be difficult, due to the college's use of several registration systems for customized training, it would provide reasonable assurance that the college has deposited and posted customized training revenue accurately. Without these reconciliations, errors and irregularities may go undetected.

Recommendations

- *The college should consider separating registration responsibilities from cashier and accounts receivable responsibilities.*

- *The college should document its voided and refund transactions. Someone independent of the transactions should review and approve the transactions.*

- *The college should use source documentation to verify the accuracy of each deposit. Any discrepancies should be investigated and resolved in a timely manner.*

- *The college should reconcile the customized training receipts recorded on the registration systems to the receipts recorded on the MnSCU accounting system.*

4. The college did not adequately safeguard receipts and bookstore inventory.

South Central Technical College did not adequately safeguard its receipts and bookstore inventory. We found the following problems:

- The bookstore did not lock its safe during business hours.
- The bookstore also left the back door open to the storage room where they kept surplus bookstore inventory, also allowing access to the safe which was located in an adjoining office.
- A custodian at the college usually brought the daily receipts to the bank, unnecessarily risking the safety of custodian and the deposit.
- Some receipts were collected outside of the cashier's controls, where facilities to safeguard receipts were not adequate. For example, the registrar's office, customized training staff and continuing education instructors all collected some receipts. They did not have a cash register to record and safeguard these receipts, nor did they restrictively endorse checks.

The college's failure to adequately safeguard its receipts and assets increases the risk of loss or theft.

Recommendation

- *The college should implement controls to effectively safeguard its receipts and bookstore inventory.*

Chapter 4. Employee Payroll

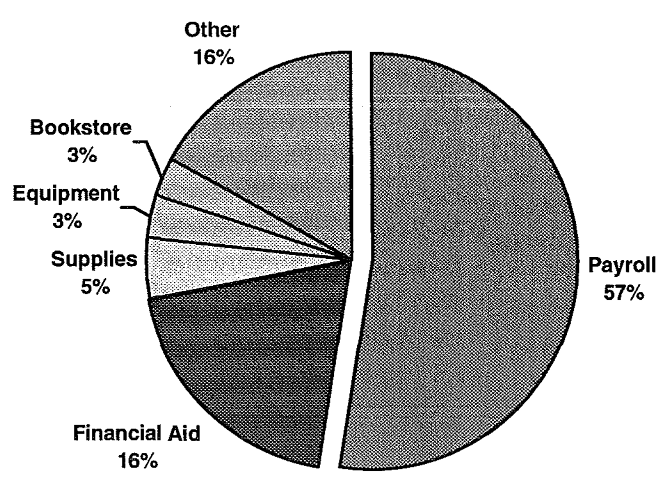
Chapter Conclusions

South Central Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, as discussed in Finding 2, we found that the college did not adequately limit computer access relating to payroll and human resource functions. In addition, the college did not perform an independent verification of payroll data. The college also did not comply with certain legal requirements concerning faculty severance packages and leave accruals.

Employee Payroll Expenditures

As shown in Figure 4-1, Payroll was South Central Technical College's largest expenditure. The college's payroll expenditures for fiscal year 1997 were about $12 million, 57 percent of all fiscal year 1997 expenditures.

Figure 4-1
South Central Technical College
Fiscal Year 1997 Expenditures



Source: Auditor prepared from MnSCU Accounting data for Fiscal Year 1997.

College employees belonged to various compensation plans, including the Middle Management Association, the Minnesota Association of Professional Employees, the Excluded Administrators

Plan, the Commissioner's Plan, and the United Technical College Educators Plan (UTCE). The United Technical College Educators Plan primarily covered faculty and instructors at the college.

MnSCU did not reach agreement with UTCE for fiscal years 1996 and 1997 until May 1997. To compensate UTCE faculty during that period, the college applied the terms of the expired contracts faculty had with the school districts prior to the creation of MnSCU. Ultimately, the terms of the UTCE agreement provided for retroactive adjustments back to July 1, 1995. Finding 5 discusses some inconsistencies in the way the college applied retroactive adjustments.

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

South Central Technical College centralized its institution-wide human resource and payroll functions at the Mankato campus. The human resources section enters all new employee data and makes changes to employees' records directly in SCUPPS. The payroll section processes the payroll for both campuses. Finding 6 notes a weakness in the college's payroll operation.

Audit Objectives and Methodology

The primary objectives of our review were as follows:

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

- Did college payroll expenditures comply with applicable bargaining agreements?

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

Conclusions

Generally, South Central Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, we found that the college did not consistently determine retroactive adjustments for faculty severance packages and leave accruals. The college also did not adequately limit computer access relating to payroll and human resource functions. Finally, the college did not perform an independent verification of payroll information for the payroll specialist.

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5. South Central Technical College did not consistently determine retroactive adjustments for UTCE employees.

When retroactively applying the terms of the UTCE compensation plan, the college did not consistently adjust faculty severance payments and leave accrual balances. As explained below, the college did not adjust severance payments for faculty who retired prior to the settlement of the UTCE contract. Also, although the college allowed faculty to retroactively accrue personal leave days they had lost during the contract period, it did not retroactively reduce their sick leave accruals to the new ten-day maximum.

Although the college did make a retroactive salary payment to faculty who retired prior to the settlement of the UTCE contract, it did not adjust the severance payment those faculty received. The severance payment should be based on the daily rate of pay at the time of retirement. Since the actual rate was not known when the faculty retired, the college used the rate from the previous contract. The college did not consider the impact on severance payments when they determined retroactive adjustments. Our testing identified one retiree whose severance payment was approximately $1,500 less due to this oversight. There were nine other faculty who retired during the period that MnSCU and UTCE were negotiating the faculty contract.

The UTCE agreement allowed instructors to accrue two personal leave days per year, to a maximum accrual of four days, and granted faculty 10 days of sick leave per year, less than the previous contracts had allowed. The college retroactively granted faculty up to four days of personal leave, but did not reduce faculty sick leave accruals to the 10-day maximum.

Recommendations

- *South Central Technical College should adjust the severance packages of those employees affected and compensate them appropriately.*

- *The college should adjust faculty leave balances to reflect the provisions of the United Technical College Educators agreement.*

6. PRIOR AUDIT FINDING NOT RESOLVED: South Central Technical College did not adequately separate duties over the payroll processing function.

There was no independent verification of payroll information entered by the payroll specialist. The payroll specialist at the Mankato campus, who processed payroll for the entire institution, entered time sheet information into the SEMA4 payroll system and also verified that the information was correct. The payroll specialist could process salary adjustments, lump sum payments, change pay rates, alter hours worked, and make adjustments to her own leave balances. Without an independent review, errors or irregularities could go undetected.

Recommendation

- *Someone independent of payroll processing should independently review payroll entries.*

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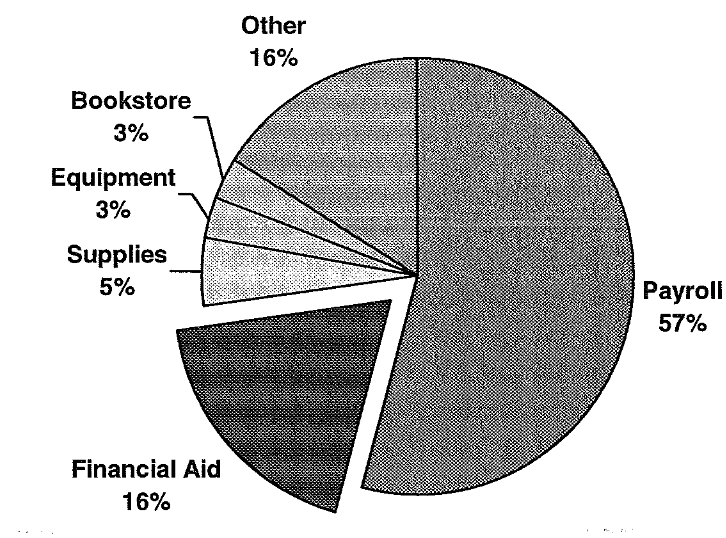
Chapter 5. Federal Student Financial Aid

Chapter Conclusions

South Central Technical College designed and implemented internal controls to provide reasonable assurance that it managed its federal student financial aid programs in compliance with applicable legal requirements. Except for the issue of timely tuition transfers discussed in Finding 1, the college properly recorded the financial aid activities in the MnSCU accounting system. For the items tested, the college complied with the applicable legal requirements for cash management and federal reporting.

As Figure 5-1 illustrates, the financial aid that the South Central Technical College provided to its students is its second largest expenditure category.

Figure 5-1
South Central Technical College
Fiscal Year 1997 Expenditures



Source: Auditor prepared from MnSCU Accounting data for Fiscal Year 1997.

The South Central Technical College participated in several federal student financial aid programs administered by the U.S. Department of Education. Table 5-1 summarizes the college's program expenditures for fiscal year 1997.

Table 5-1
Federal Financial Aid Expenditures (including state match)
Fiscal Year 1997
(000's Omitted)

CFDA Number	Program	Expenditures
84.032	Federal Family Loan (FFEL)	$2,212
84.063	Federal PELL Grant	1,049
84.007	Federal Supplemental Educational Opportunity Grant (FSEOG)	92
84.033	Federal Work Study (FWS)	77

Note: SEOG and Federal Work-Study expenditures include both the federal and state share.
Source: Auditor prepared based on information provided by South Central Technical College

South Central Technical College used an automated financial aid system called SARA to determine a student's financial need and identify the financial aid options available to that student. SARA automatically allocated PELL grants, FSEOG, and Minnesota State grants to eligible students. After the system determined these awards, the college determined the student's eligibility for FFEL loans and college work-study. The college posted financial aid award information to the student registration system, adjusting awards as needed based upon a student's actual enrollment status after the drop/add period for the term. The Financial Aid Office credited student financial aid awards to the student's tuition receivable account. The business office generated checks to the students for any aid in excess of the tuition and fees owed the college.

Following are descriptions of the material federal and state financial aid programs:

- Under the Federal Family Education Loan Program, private lenders provided the loan principal, and the federal government guaranteed the loan in the event of default or cancellation. For subsidized Stafford loans, the federal government paid interest to the lender while the student was in school and during certain deferment periods. For unsubsidized Stafford loans, the student paid all interest that accrued on the loan.

- The Federal PELL Grant was generally the first source of financial assistance to an eligible student. SARA determined the Federal PELL Grant awards using the cost of attendance and the expected family contribution. The U.S. Department of Education provided Federal PELL Grant funds to each campus based on the eligible students enrolled.

- The college awarded Federal Supplemental Educational Opportunity grants to exceptionally needy undergraduate students. SARA determined a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education funded 75 percent of the Federal Supplemental Educational Opportunity Grants and the college funded the remainder.

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

- The college also participated in the Minnesota State Grant program, funded through the Minnesota Higher Education Services Office. The award amount varied based on the credits the student earned. In fiscal year 1997, the college disbursed Minnesota State Grants totaling $741,031.

Audit Objectives and Methodology

Our primary audit objectives 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 design and implement reasonable controls to ensure federal program funds were requested timely and based on immediate costs?

- Did the college comply with applicable legal requirements over federal cash management and accurate reporting of financial aid activity?

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

Conclusions

South Central Technical College designed and implemented internal controls to provide reasonable assurance that it managed its federal student financial aid programs in compliance with applicable program requirements. Except for the issue of timely tuition transfers discussed in Finding 1, the college properly recorded the financial aid activities in the MnSCU accounting system. For the items tested, the college complied with the applicable legal requirements for federal cash management and program reporting.

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Chapter 6. Supply, Equipment, and Bookstore Expenditures

Chapter Conclusions

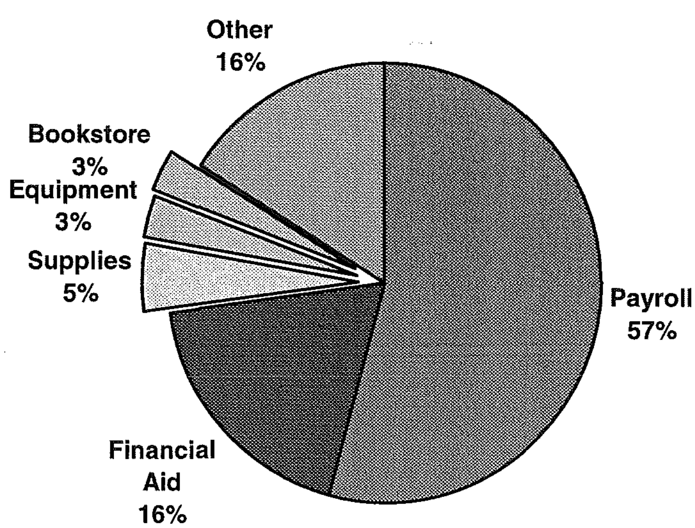
Generally, South Central Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported supplies, equipment, and bookstore expenditures in the accounting records. However, we found the following weaknesses in the college's control system:

- ***The college did not encumber funds prior to incurring obligations.***
- ***The college paid invoices without evidence of receipt of goods and services.***
- ***The college did not retain bidding documentation.***

We also found that the college had not completed a fixed asset inventory since 1994 and the college's fixed asset records contained errors and omissions. The Mankato bookstore also had not adequately separated incompatible duties.

In fiscal year 1997, South Central Technical College purchased supplies and equipment totaling about $2.4 million. This total includes purchases for the bookstores' operations and inventory. As shown in Figure 6-1, the college's supply and equipment purchases were 11 percent of their total expenditures.

Figure 6-1
South Central Technical College
Fiscal Year 1997 Expenditures



Source: Auditor prepared from MnSCU Accounting data for Fiscal Year 1997.

South Central Technical College

Audit Objectives and Methodology

The objectives of our review of supply, equipment, and bookstore expenditures were to determine the following:

- Did South Central Technical College design and implement internal controls to provide reasonable assurance that supply, equipment, and bookstore expenditures were accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- Did South Central Technical College comply with applicable legal provisions for the items tested?

To meet these objectives, we interviewed South Central Technical College employees to gain an understanding of the purchasing and disbursement process. We reviewed a sample of supply, equipment, and bookstore expenditures to determine if the college properly authorized, processed, and recorded expenditures. We also reviewed the sample of expenditures to determine if South Central Technical College complied with applicable legal provisions. Finally, we reviewed the college's process to record and monitor fixed assets.

Conclusions

Generally, South Central Technical College accurately reported supplies, equipment, and bookstore expenditures in the accounting records and complied with applicable legal provisions We found, however, that the college did not have an adequate control system to ensure that:

- funds were encumbered prior to incurring obligations;
- goods and services were received prior to processing payment; and
- bidding documentation was on file.

Also, the college had not completed a fixed asset inventory since 1994, and its fixed asset records contained errors and omissions. In addition, the college had not adequately separated incompatible duties in the Mankato campus's bookstore.

7. The college needs to improve controls over the purchasing and payable process.

South Central Technical College's purchasing and payment process had several weaknesses. First, the college did not always encumber funds prior to incurring an obligation. The business office did not encumber funds for college purchases until it started using the MnSCU purchasing module in fiscal year 1997. Bookstore staff, as of May 1998, were still not encumbering funds for purchases. Both Minnesota statutes and MnSCU policy require that the college encumber funds prior to incurring obligations. This requirement ensures that funds will be available to make the payment when the goods or services are received.

Next, the business office and the bookstore paid invoices without evidence of the receipt of the goods or services. Without this documentation, the risk increases that the college may pay for items not received. Although maintenance personnel inspected supply and equipment deliveries, they retained the packing slips in the loading dock area and did not forward this evidence of receipt to the business office.

Finally, our testing of equipment purchases found that the college was unable to provide bidding documentation for approximately 25 percent of the items tested (six of twenty-three). The South Central Technical College's purchasing policy requires at least two bids for any items costing over $500.

Recommendations

- *South Central Technical College should encumber funds prior to incurring obligations.*
- *South Central Technical College staff should verify that goods and services are received prior to processing the payment.*
- *South Central Technical College should document bids obtained for purchases over $500.*

8. PRIOR AUDIT FINDING NOT RESOLVED: South Central Technical College did not adequately account for fixed assets.

South Central Technical College has not completed a fixed asset inventory since 1994. The college's fixed asset records contained omissions and inaccurate recording of some assets. The college used the MnSCU accounting Fixed Asset module to record equipment with a unit cost over $2,000, along with less costly items, such as computers, that are susceptible to loss or theft.

The fixed asset list did not contain three of the fourteen equipment purchases we tested. In addition, the college did not post accurate data for some assets. For example, the list identified "25 computers" as one asset, all with a single state asset number. The purpose of maintaining a fixed asset list is to identify specific fixed assets, assign responsibility for the assets, and monitor their location. Inaccuracies erode the usefulness of the fixed asset list, and increase the risk that the college would not detect the loss or theft of fixed assets.

Recommendations

- *The college should conduct regular, periodic physical inventory counts.*
- *The college should review fixed assets records to ensure that they are complete and accurate*

9. The Mankato campus did not separate incompatible duties in its bookstore operations.

The Mankato bookstore manager could perform all aspects of the purchasing and payment process and was responsible for reviewing monthly expenditure reports to ensure proper payments were made. The bookstore manager initiated purchases, received goods, and could process payments. Since there was no independent review of the bookstore expenditures, inappropriate transactions or errors could occur and not be detected.

Recommendation

- *To improve controls, someone independent of the payment process should review payment transactions for appropriateness and accuracy.*

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Status of Prior Audit Issues
As of June 12, 1998

Most Recent Audits

Legislative Audit Report 98-16, issued in March 1998, covered federal financial aid programs administered by the state of Minnesota in fiscal year 1997. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to South Central Technical College.

Other Audit History

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs administered by the state of Minnesota in fiscal year 1996. This report did not include any findings related specifically to South Central Technical College.

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

Legislative Audit Report 96-35, issued in August 1996, covered fiscal year 1996 and addressed the Transition of Technical Colleges into State Government. The report contained 11 findings related specifically to South Central Technical College. The college implemented 7 of these recommendations. We repeat the remainder of the findings in the current report, as Findings 1, 3, 6, and 8.

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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SOUTH CENTRAL
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October 2, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report for South Central Technical College for the period of July 1, 1995 through June 30, 1997. Our formal written response to the audit findings is attached.

I want to thank Pat Ryan, Auditor In Charge, and the entire audit team for the professional and thorough manner in which they conducted the audit. They treated our staff with respect and courtesy. We appreciate their assistance in resolving the audit findings.

The period audited was a time of great change and challenges for the College. The team showed genuine respect and understanding for the efforts made by our staff during the transition to MnSCU, the realignment of campuses to create a new South Central Technical College, and the implementation of many new management information systems. The audit findings provide useful feedback. We believe our response to the audit findings is a positive step in our efforts to continuously improve our operations at South Central Technical College

Please contact me if you have any questions regarding our response.

Sincerely,

Dr. Kenneth Mills
President

SOUTH CENTRAL TECHNICAL COLLEGE

Response to audit finding

FINANCIAL MANAGEMENT

1. South Central Technical College did not transfer financial aid tuition receipts to the state treasury promptly.

Recommendation

South Central Technical College should promptly transfer financial aid awards credited to the students' tuition and fees into the state treasury.

The college should promptly record financial aid disbursements and tuition and fee revenue in MNSCU accounting.

Effective Fall Semester of 1998-1999 , SCTC has implemented the new Student Registration and Accounts Receivable modules of the MnSCU Integrated Student Records System. The system records financial aid awards to tuition and fee revenue accounts at the time aid is applied to the students account and the funds are swept to the State Treasury automatically the next day.

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: September 10, 1998

2. South Central Technical College did adequately limit computer system access and allowed employees to share logon ID's and passwords.

Recommendation

The college should review computer system access and limit access to the minimum required for staff to perform specific job functions.

The college should not allow employees to share computer system logon Ids and passwords.

SCTC will review security reports and eliminate access where it is not required. Student workers were given their own, unique passwords effective July 1, 1998. Employees have been instructed not to share passwords.

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: October 30, 1998

REVENUES

3. PRIOR AUDIT FINDING NOT RESOLVED: The college's control procedures did not ensure that all collected receipts were deposited and posted to registration and accounting systems.

The college should consider separating registration responsibilities from cashier and accounts receivable positions.

The college should document its voided and refund transactions. Someone independent of the transactions should review and approve the transactions.

The college should use source documentation to verify the accuracy of each deposit. Any discrepancies should be investigated and resolved in a timely manner.
The college should reconcile the customized training receipts recorded on the registration systems to receipts recorded on the MnSCU accounting system.

SCTC has implemented new documentation processes, which separate registration and cashiering functions. All cash must be directed through the bookstores. Registration personnel no longer handle cash receipts. A lockbox with envelopes has been placed outside each bookstore entrance for after-hours payment collection.

SCTC has implemented new void and refund documents in both bookstores, which document voids and refunds, and any cash refunds must be countersigned by the person receiving the refund.

SCTC has started matching all bank deposits to cash register tape documentation during the bank reconciliation process.

Customized training registrations are now entered into the MnSCU Integrated Student Information system. The registration automatically triggers the creation of a receivable to be billed or paid off from a cash receipt. SCTC will review revenue against course records and receivables to ensure accuracy of receipts versus registrations.

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: July 1, 1998

4. The college did not adequately safeguard receipts and bookstore inventory.

Recommendation

The college should implement controls to effectively safeguard its receipts and bookstore inventory.

The safe is now locked except for the time periods it needs to be opened for a specific task. The bookstore manager has purchased and installed an iron security gate for the back entrance to the bookstore, which will allow for ventilation yet keep the storage area locked and secure. SCTC will investigate using an armored car service for at least the first weeks each semester when the bookstores have their largest bank deposits.

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: July 1, 1998

EMPLOYEE PAYROLL

5. South Central Technical College did not consistently determine retroactive adjustments for UTCE employees.

Recommendation

South Central Technical College should adjust the severance packages of those employees affected and compensate them appropriately.

The college should adjust faculty leave balances to reflect the provisions of the United Technical College Educators agreement.

MnSCU Labor Relations staff are currently reviewing these system-wide bargaining agreement issues. The college is waiting for system direction.

Responsible Person: Laural Kubat, Dir. Of Human Resources
Effective Date: October 15, 1998

6. PRIOR AUDIT FINDING NOT RESOLVED: South Central Technical College did not adequately separate duties over the payroll processing function.

Recommendation

Someone independent of payroll processing should independently review payroll entries.

Laural Kubat, Director of Human Resources, will review and initial the SEMA4 payroll registers for each pay period.

Responsible Person: Laural Kubat, Dir. Of Human Resources
Effective Date: July 1, 1998

SUPPLY, EQUIPMENT AND BOOKSTORE EXPENDITURES

7. The college needs to improve controls over the purchasing and payroll process.

Recommendation

South Central Technical College should encumber funds prior to incurring obligations.

South Central Technical College staff should verify that goods and services are received prior to processing payment.

South Central Technical College should document bids obtained for purchases obtained over $500.

SCTC has began entering all purchases excluding bookstore purchases in the MnSCU purchasing system which automatically encumbers funds when processing a purchase order in fiscal year 1997. Bookstore purchases had been made through a separate bookstore inventory system until June, 1998. Now all purchase orders including bookstore purchases are processed through MnSCU and properly encumbered.

Beginning in June 1998, the custodians at each campus began forwarding the packing slips from all items, which they receive to the accounts payable staff. The accounts payable clerk now matches invoices and packing slips against purchase orders prior to payment.

The Purchasing officers at each campus review all requisitions to ensure each requisition greater than $500 has proper multiple bid documentation. They return any requisitions lacking such documentation to the originator who must supply the documentation prior to a purchase order being submitted. SCTC will create a purchasing guidebook to be distributed to faculty and staff and will develop a training module for new and existing personnel. SCTC will be more aggressive in making staff who may not follow bidding guidelines return any merchandise, which was not properly authorized by SCTC.

8. PRIOR AUDIT FUNDING NOT RESOLVED: South Central Technical College did not adequately account for fixed assets.

Recommendation

The college should conduct regular, periodic physical inventory controls.

The college should review fixed asset records to ensure that they are complete and accurate.

SCTC will complete a physical inventory of fixed assets and compare to the fixed asset listing in the MnSCU fixed Asset system. The purchasing officer will enter all additions and deletions to fixed asset inventory in the MnSCU Fixed Asset system in a timely manner. Thereafter, the college will spot count on a random basis at least semiannually items from the MnSCU Fixed Asset Inventory system

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: November 1, 1998

9. The Mankato campus did not separate incompatible duties in its bookstore operations.

Recommendation
To improve controls, someone independent of the payment process should review payment transactions for appropriateness and accuracy.

SCTC has reorganized its staffing to create a new college-wide accounts payable clerk position. In addition to segregating payables from purchasing duties overall, this position will review and process all bookstore payments as well.

Responsible Person: Rick Straka, VP of Finance and Operations
Effective Date: September 28, 1998