OLA

**OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Audit Division Report

# Minnesota State Colleges and Universities

**September 8, 2005** **05-49**

# Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

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- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OLA
# OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. James H. McCormick, Chancellor
Minnesota State Colleges and Universities

We have audited selected financial activities of the Office of the Chancellor and seven colleges of the Minnesota State Colleges and Universities (MnSCU) system. The individual colleges we audited included Anoka-Ramsey, Rainy River, and Vermilion Community Colleges and Fond du Lac Tribal and Community College. We also audited Mesabi Range Community and Technical College, Minnesota West Community and Technical College, and Minnesota State College-Southeast Technical. Each of the audits covered a three-year period ending on June 30, 2004, except Anoka-Ramsey Community College was a two-year audit.

Our audit scope at the colleges was limited to security over access to accounting applications, tuition and fee revenues, payroll, and administrative expenditures. Our audit of the Office of the Chancellor included these common areas to the extent applicable, as well as allocations of appropriations and centralized costs to the colleges and universities and the administration of several joint powers agreements. Therefore, we emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges or the Office of the Chancellor. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Office of the Chancellor and the individual colleges for their cooperation during this audit.

*/s/ James R. Nobles*

James R. Nobles
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 22, 2005

Report Signed On: September 2, 2005

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## Exit Conference

We discussed the results of the audit with the following staff of MnSCU at an exit conference on August 24, 2005. We also met with representatives of the individual colleges to discuss the audit results at the conclusion of our fieldwork.

| | |
|---|---|
| Laura King | Vice Chancellor, Chief Financial Officer |
| Tim Stoddard | Associate Vice Chancellor, Financial Reporting |
| Margaret Jenniges | Director of Financial Reporting |
| Beth Buse | Deputy Director, Internal Auditing |
| Denise Kirkeby | Financial Reporting |
| Melissa Primus | Regional Audit Coordinator, Internal Auditing |
| Lori Voss | MnWest, Vice President of Administration |
| Diana Fliss | MnWest, Accounting Technician |

# Minnesota State Colleges and Universities (MnSCU)

## Audit Participation

The following members of the Office of the Legislative Auditor audited the colleges included in our scope and contributed to the preparation of this report:

| | |
|---|---|
| Claudia Gudvangen, CPA | Deputy Legislative Auditor |

MnSCU Office of the Chancellor:

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|---|---|
| Jim Riebe, CPA | Audit Manager |
| Jack Hirschfeld, CPA | Auditor-in-Charge |
| George Deden, CPA | Auditor |
| Gena Hoffman | Auditor |

Anoka-Ramsey Community College:

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|---|---|
| Jim Riebe, CPA | Audit Manager |
| Tony Toscano | Auditor-in-Charge |
| Laura Peterson, CPA | Auditor |
| Stacy Anderson | Auditor |

Fond du Lac Tribal and Community College:

| | |
|---|---|
| Thomas Donahue, CPA | Audit Manager |
| Carl Otto, CPA, CISA | Auditor-in-Charge |
| John Hakes, CPA | Auditor |

Mesabi Range Community and Technical College:

| | |
|---|---|
| Cecile Ferkul, CPA, CISA | Audit Manager |
| Joan Haskin, CPA, CISA | Auditor |
| Gena Hoffman | Auditor |
| Susan Rumpca, CPA | Auditor |

Minnesota West Community and Technical College:

| | |
|---|---|
| David Poliseno, CPA, CISA | Audit Manager |
| Ken Vandermeer, CPA | Auditor-in-Charge |
| Ching-Huei Chen, CPA | Auditor |
| Ellen Sibley, CPA | Auditor |

Minnesota State College – Southeast Technical:

| | |
|---|---|
| Jeanine Leifeld, CPA, CISA | Audit Manager |
| Michael Hassing, CPA | Auditor-in-Charge |
| Stacy Anderson | Auditor |

Rainy River Community College:

| | |
|---|---|
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| Scott Tjomsland, CPA | Auditor-in-Charge |
| Steve Johnson, CPA, CISA | Auditor |

Vermilion Community College:

| | |
|---|---|
| Cecile Ferkul, CPA, CISA | Audit Manager |
| Joan Haskin, CPA, CISA | Auditor |
| Gena Hoffman | Auditor |
| Susan Rumpca, CPA | Auditor |

# Report Summary

**Key Conclusions:**

The Office of the Chancellor and the individual colleges included in our scope generally safeguarded assets and correctly recorded financial activity for the selected financial areas we audited. With certain exceptions, the Office of the Chancellor and the individual colleges complied with significant MnSCU policies and management's authorization for tested transactions. As highlighted in the next section, we identified several findings related to internal controls and compliance with financial legal provisions.

**Key Findings and Recommendations:**

- Although we noted some improvements, MnSCU needs to strengthen its efforts to ensure that access to its accounting applications is secure and adequately restricted to authorized personnel. (Finding 1, page 8)

- Several colleges need to improve controls over purchasing and disbursement transactions and ensure compliance with certain legal provisions. (Findings 8 - 10, pages 22 - 26)

The audit report contained 13 findings relating to internal control or legal compliance issues. Some findings were applicable to multiple campuses; other issues were directed toward only one entity. The report included four findings from our prior audit reports that were not fully implemented. In particular, Fond du Lac Tribal and Community College and Vermilion Community College need to resolve several prior audit findings. We did not report any written findings for Minnesota State College-Southeast Technical.

**Audit Scope:**

Entities Audited
The Office of the Chancellor, Anoka-Ramsey, Rainy River, and Vermilion Community Colleges, Fond du Lac Tribal and Community College, Mesabi Range Community and Technical College, Minnesota West Community and Technical College, Minnesota State College-Southeast Technical

Audit Period:
Two or Three Fiscal Years Ended June 30, 2004

Selected Audit Areas:
- Security Over Access to Accounting Applications
- Tuition and Fees
- Employee Payroll
- Administrative Expenditures
- Office of the Chancellor Joint Powers Agreements

**Agency Background:**

MnSCU provides system-wide administrative management and develops oversight policy for 32 state universities and colleges. The MnSCU Board of Trustees appoints a president to oversee the activities at the individual colleges. The colleges finance their operations from three main sources: state appropriation allocations, tuition and fees, and federal grants. MnSCU had a total student full-year equivalent enrollment of about 136,000 for fiscal year 2004, an increase of 2.4 percent over fiscal year 2003.

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# Chapter 1. Introduction

The Minnesota State Colleges and Universities (MnSCU) system contracts with the Office of the Legislative Auditor to provide selected internal control and compliance audits of the Office of the Chancellor and individual colleges and universities that comprise MnSCU. This additional audit work complements the annual financial statement audits of the MnSCU system and certain individual colleges and universities conducted by certified public accounting firms.

Together with MnSCU management, we used various criteria to determine the specific financial activities included in the scope of our work and the MnSCU entities we audited. Those criteria include the size and type of each entity's financial operations, length of time since the last audit, whether the college had been subject to financial statement audit coverage, changes in organizational structure and key personnel, and available audit resources.

This year, as a result of our annual assessment, we decided to audit selected financial activities of the Office of the Chancellor and seven colleges of the Minnesota State Colleges and Universities (MnSCU) system. The individual colleges we audited included Anoka-Ramsey, Rainy River, and Vermilion Community Colleges, and Fond du Lac Tribal and Community College. We also audited Mesabi Range Community and Technical College, Minnesota West Community and Technical College, and Minnesota State College-Southeast Technical. Each of the audits covered the three year period ending June 30, 2004, except Anoka-Ramsey Community College was a two year audit.

Our audit scope at the colleges was limited to security over access to computerized accounting applications, tuition and fee revenues, payroll, and administrative expenditures. Our audit of the Office of the Chancellor included these common areas, to the extent applicable, as well as allocations of appropriations and centralized costs to the colleges and universities and administration of several joint powers agreements. Therefore, we emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges or the Office of the Chancellor. Our objectives focused on a review of the internal controls over these financial activities and compliance with applicable legal provisions.

## MnSCU Overview

The Minnesota State Colleges and Universities (MnSCU) is comprised of 32 state universities, community colleges, and technical colleges and the Office of the Chancellor. *Minnesota Statutes* Section 136F assigns the powers necessary to govern the state colleges and universities to the MnSCU Board of Trustees. The Office of the Chancellor employs staff to provide services to all colleges and universities within the system. James H. McCormick began his term as chancellor in July 2001.

The Office of the Chancellor is responsible for providing the overall management and direction of the MnSCU system. It reviews and coordinates educational programs, oversees the credit transfer process, negotiates labor contracts, and administers system-wide financial management operations. The Office of the Chancellor carries out policies of the Board of Trustees, conducts presidential searches, communicates with the public and the media about MnSCU, and represents the colleges and universities at the Legislature.

The Office of the Chancellor provides support to colleges and universities in the areas of budgeting, financial reporting, facilities management, information technology, student loan servicing, faculty professional development, and training for professional and volunteer firefighters and public safety personnel. The office charges the colleges for the cost of some centralized services.

The MnSCU Board of Trustees appoints presidents to lead and manage individual colleges. Each college offers students a wide range of educational opportunities that include technical and career programs, as well as liberal arts, education, business, and other specialized curriculums.

All of the colleges use the MnSCU accounting system to process and record financial activities. The MnSCU accounting system interfaces with the state's accounting system to generate warrants from the state treasury. The Office of the Chancellor also requires that all colleges use the MnSCU accounting system to account for money maintained outside of the state treasury. The colleges often administer these funds in local bank accounts. The colleges use the MnSCU Integrated Statewide Record System for student registration.

## Budgetary Controls

The colleges finance their operations from three main sources: state appropriation allocations, tuition and fees, and federal grants. The Office of the Chancellor receives the majority of its funding for operations from General Fund appropriations. The office allocates appropriated funds to the individual colleges. The colleges retain their tuition and other receipts to arrive at their total authorized spending level.

Once the colleges determine their authorized spending levels, they establish spending budgets for the various administrative areas and academic departments. The colleges designate individual cost centers for each department or office to monitor its budget status. College management monitors projected versus actual student enrollment to ensure that the institution will operate within its spending budget. MnSCU has a policy concerning maintenance of reserve balances which is part of the overall budget formula. MnSCU's Annual Financial Report provides additional information on its financial operations.

Table 1-1 provides background information on the individual colleges audited.

**Table 1-1**
**Individual College Information**
**Fiscal Year 2004**

| College | Student FYE[1] | Faculty FTE[1] | Staff/ Administrators FTE[1] | Total Operating Revenue[2] (000's) | Total Operating Expenses (000's) |
|---|---|---|---|---|---|
| Anoka-Ramsey | 4,495 | 138 | 129 | $33,950 | $32,307 |
| Fond du Lac | 1,050 | 40 | 47 | $10,097 | $10,576 |
| Southeast Technical | 1,520 | 67 | 57 | $14,516 | $14,837 |
| Minnesota West | 2,174 | 137 | 109 | $24,066 | $25,488 |
| Northeast Higher Education District[3] | - | - | - | $51,220 | $52,678 |
| Mesabi Range | 1,244 | 62 | 62 | - | - |
| Rainy River | 302 | 23 | 20 | - | - |
| Vermilion | 663 | 30 | 17 | - | - |

Note 1: FYE refers to the number of full year equivalent students and FTE refers to full time equivalent positions.
Note 2: Total operating revenue includes state appropriations allocated to each college.
Note 3: The revenue and expenditure totals represent the combined total for the Northeast Higher Education District, which includes Hibbing, Itasca, Mesabi Range, Rainy River, and Vermilion Community Colleges.
Source: Financial information obtained from the MnSCU Annual Financial Report for the year ended June 30, 2004, Statement of Revenues, Expenses, and Changes in Net Assets (unaudited) schedules. Other data obtained from MnSCU Accounting and MnSCU's Budget Division and Human Resources Division web sites.

The Office of the Chancellor incurred total operating expenses of $16.1 million during fiscal year 2004.

## Audit Approach

Our audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of each entity's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that each entity complied with financial-related legal provisions that are significant to the audit. In determining each entity's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of MnSCU's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting each entity's internal controls and compliance with laws, regulations, contracts, and grant provisions.

Chapters 2 through 6 discuss the conclusions from our audit work. The report includes 14 findings related to internal control or legal compliance issues. Some findings were applicable to multiple campuses; other issues were directed to only one entity. We did not report any written findings for Minnesota State College-Southeast Technical.

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# Chapter 2. Security Over Access to Accounting Applications

## *Chapter Conclusions*

***The internal controls of the Office of the Chancellor and individual colleges provided reasonable assurance that access to MnSCU's computerized accounting applications was generally controlled, although certain entities still need to strengthen controls over selected system access.***

## Audit Objective

Our audit of computer system access focused on the following question:

- Did the internal controls of the Office of the Chancellor and individual colleges provide reasonable assurance that access to MnSCU's computerized accounting applications, including MnSCU accounting and its personnel and payroll system, was adequately restricted and periodically monitored?

## Background Information

MnSCU developed its Integrated Statewide Records System (ISRS) to support its business operations. ISRS consists of several modules including purchasing, accounting, human resources, and student registration, among many others. All of the colleges use the MnSCU accounting system to initiate and record financial transactions. The colleges use MnSCU's State Colleges and Universities Personnel and Payroll System (SCUPPS) for personnel transactions. The MnSCU accounting system and its personnel and payroll system interface with the state's accounting system and the state's payroll system.

The Office of the Chancellor and individual colleges have a shared responsibility to protect the integrity of MnSCU's critical business systems and personnel data. MnSCU is responsible for developing and maintaining security controls for its business systems. Each college is responsible for determining the access needs of its employees who use the systems. The Office of the Chancellor has developed an ISRS security team to work with the colleges. The team has focused on different types of access related to the accounts receivable module and is developing guidance regarding computer system clearances for purchasing and accounts payable. Once the purchasing and accounts payable work is complete, the colleges should have a better guidance for determining if computer system clearances result in incompatible duties.

## Minnesota State Colleges and Universities (MnSCU)

## Findings and Recommendations

**1. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Certain colleges did not ensure that access to computerized business systems was adequately restricted.**

Some colleges improved their procedures and resolved prior audit issues relating to access to various MnSCU accounting modules, the state's payroll system, and MnSCU's personnel system (SCUPPS). However, we have continued concerns at a number of colleges related to the risks and vulnerabilities associated with inappropriate system access. As discussed below, some employees continue to have access they do not need for their current jobs; other employees have access to various applications that result in an inadequate separation of duties that would allow them to perpetrate and conceal errors or irregularities. Without proper security controls, MnSCU is at risk for possible unauthorized access to critical business systems or for fraudulent transactions to occur.

Minnesota West Community and Technical College did not adequately monitor or control access to its computerized business systems. We found:

- Eleven employees had the ability to perform incompatible duties within the cash accounting cycle. These employees processed and recorded cash and also had the ability to change cohort group rates for customized training students. Seven of these employees also had the ability to adjust accounts receivable balances, including reducing or writing off balances.

- Nineteen employees had the ability to enter backdated registration transactions. Backdated transactions are high-risk transactions because they allow the college to change a student's registration data and eliminates the student's obligation to pay tuition, thereby reducing revenue to the college. Although the college reviewed backdated transactions, it needs to improve the process for customized training registrations.

- Four employees had unnecessary access to the accounting or purchasing modules.

- Two employees shared the same user identification number for processing transactions.

Fond du Lac Tribal and Community College made some improvements over system security since the last audit. However, several employees still had unnecessary or incompatible access to the accounting applications. Two employees had unnecessary access to the accounts receivable module, and one employee had unnecessary access to the registration modules. We also found one employee had incompatible access within the human resources and payroll systems. We also observed that an employee supervising accounts payable had access rights of a purchasing supervisor when, in fact, a different employee served in that capacity.

Mesabi Range Community and Technical College made progress in its controls over computer system access since the last audit, but needs to make some additional improvements:

- While the college continued to have three employees with incompatible clearances to the MnSCU accounts receivable module, it instituted a detective control for waiver transactions. The business manager reviews waiver transactions to ensure proper authorization. The college does not perform a similar review of other types of transactions that also pose a higher risk of error or irregularity, such as negative cash receipts and backdated drops.

- The college allowed one employee broad and incompatible access to the state's personnel/payroll system and MnSCU's SCUPPS personnel/payroll system. The college had not developed sufficient reviews of this employee's work to ensure the detection of errors or irregularities. The college processed payroll and human resources transactions on behalf of Vermilion Community College.

- Four employees had access to both create employee records and pay employees in MnSCU's SCUPPS system (HR20 and HR80 access). In addition, an Office of the Chancellor employee and a consultant had this access to Mesabi Range's SCUPPS data. These employees did not need the access for their specific job responsibilities.

Vermilion Community College gave three employees incompatible access to security groups related to tuition and accounts receivable activities. Although the college did monitor and review waiver transactions, it did not have a process in place to review negative cash receipt transactions.

The Office of the Chancellor also had some employees with incompatible access to the personnel and payroll systems. The access of four employees of the Office of the Chancellor and one consultant allowed these individuals to perform both personnel and payroll functions, including the ability to create or change employee records (HR 20 access) and to schedule the payroll disbursements (HR 80 access). Although these individuals do no have access in the state's payroll system to generate payroll checks, potentially erroneous or fictitious amounts could be included in the data file that MnSCU sends to the state's payroll system. These four employees and the consultant do not need this level of access to perform their current responsibilities, and the access provided increases the risks of unauthorized transactions. The office periodically reviews employee and consultant access to the computer system for improper or unneeded access and felt that this level of access was appropriate.

In addition, ten employees of the Office of the Chancellor have high level access to create and change records in individual college human resources functions, including the SCUPPS system. This level of access appeared appropriate given the responsibilities of the employees. Administratively, however, it is difficult for individual colleges to monitor whether or not the level of access is appropriate or which Office of the Chancellor employees should have access, especially considering personnel turnover or changes in employee responsibilities.

*Recommendations*

- *The Office of the Chancellor and the applicable colleges should limit access to computer systems to ensure an adequate separation of duties and prevent unauthorized access to data. If restricted access is impractical because of staffing levels, mitigating controls should be established.*

- *The Office of the Chancellor and the individual colleges should periodically monitor security clearances to ensure that only authorized individuals have the level of access needed to perform their job responsibilities.*

- *The Office of the Chancellor should periodically notify colleges which of its employees have access to the colleges' accounting applications so that the colleges can effectively monitor system access.*

# Chapter 3. Tuition and Fees

## *Chapter Conclusions*

***The colleges' internal controls generally provided reasonable assurance that assets were adequately safeguarded, receipt transactions were accurately reported in the accounting records, and financial transactions complied with applicable legal provisions and management's authorization. However, we noted control weaknesses at some colleges related to receipt collections, monitoring accounts receivable, and processing backdated transactions. We also identified one college that did not execute contracts for customized training courses.***

***The colleges complied with significant finance-related legal provisions for the items tested, except that one college did not follow the tuition waiver guidelines as required by board policy.***

## Audit Objectives

Our audit of tuition and fees at the selected colleges (the Office of the Chancellor does not register students and assess tuition and fees) focused on the following questions:

- Did the colleges' internal controls provide reasonable assurance that tuition collections and third party billing receipts were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the colleges comply with the significant finance-related legal provisions concerning tuition?

## Background Information

The individual colleges included in our scope offer a mix of credit based and non-credit based technical and career programs, as well as an undergraduate liberal arts curriculum. All MnSCU colleges and universities use the Integrated Statewide Record System (ISRS) to record various student data and registration information. The accounting module in ISRS processes and records the receipt transactions associated with tuition and fees. Table 3-1 shows the tuition and fee revenue collected by the colleges during fiscal year 2004.

**Table 3-1**
**Tuition and Fee Revenue by College (in $000's)**
**Fiscal Year 2004**

| College | Tuition and Fees(1) | Student Waivers(1) | Employee Waivers(1) | Audited Revenue |
|---|---|---|---|---|
| Anoka-Ramsey | $15,452 | ($118) | ($39) | $15,295 |
| Fond du Lac | 2,713 | (7) | (14) | 2,692 |
| MSC-Southeast Tech | 5,976 | (25) | (27) | 5,924 |
| Minnesota West | 7,774 | (55) | (36) | 7,683 |
| Mesabi Range | 4,187 | (73) | (22) | 4,092 |
| Rainy River | 1,118 | (32) | (2) | 1,084 |
| Vermilion | 2,524 | (31) | (12) | 2,481 |
| Total | $39,744 | ($341) | ($152) | $39,251 |

Note (1) SubObject Type Codes per MnSCU Accounting Revenue Files: Tuition and Fees = 31; Student Waivers = 39.
SubObject Type Codes per MnSCU Accounting Expenditure Files: Employee Waivers = 39.

Source: MnSCU Accounting System Data FY2004 as of June 30, 2005.

## Findings and Recommendations

### 2. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Two colleges did not adequately secure their cash transactions.

The cashiers at Anoka-Ramsey Community College and Mesabi Range Community and Technical College shared cash drawer sessions. The MnSCU accounting system's cash drawer sessions operate similar to a cash register. As students come to the business office to pay their tuition and fees, the cashiers record the receipt of money in the cash session and print receipts for the students. The colleges assigned each cashier a unique user identification to help identify the user responsible for each particular cash session. Throughout the day, however, different cashiers would record payments on the same session. By allowing cashiers to share the same cash session, the colleges lost the ability to identify which user processed certain student payments. The risk of theft increases as accountability decreases. Because different cashiers opened and closed the cash drawer for a single session, the college would not be able to identify the responsible party if the money in the cash drawer did not equal the amount on the accounting system.

We also observed that Anoka-Ramsey Community College did not adequately secure the daily bank deposit. At the Cambridge campus, the daily deposit was not locked in a secure location prior to pick up by the courier. At the Coon Rapids campus, although receipts were placed in the safe, the safe was not always locked. By not securing the cash and checks, the college increased its risk that the money could be lost or stolen.

*Recommendations*

- *The colleges should ensure that cashiers operate separate cash sessions in the MnSCU accounting system.*
- *Anoka-Ramsey Community College should keep bank deposits secured until the couriers pick up the daily deposits.*

### 3. Two colleges did not sufficiently document or promptly process some transactions that waived or adjusted tuition charges.

Two colleges did not maintain supporting documentation for some backdated registration cancellation transactions; one of those colleges also inappropriately used waiver transactions. The computerized accounts receivable application allows users to eliminate a student's tuition and fee charges in various ways, including waiving the tuition or backdating registration cancellation records. A waiver transaction does not eliminate the registration, but does remove the charges. Backdating the registration cancels the registration and eliminates the charges.

MnSCU policy 5.12 (Refunds, Withdrawals, and Waivers) allows institutions discretion when canceling tuition charges, but specifies certain situations when waivers are appropriate. The policy does not clearly define when it is appropriate to eliminate tuition charges by backdating changes to a student's registration. Backdated and waiver transactions are high-risk because they allow college staff to adjust accounts receivable balances.

We found the following weaknesses in the use and documentation of backdated registration cancellation and waiver transactions:

- Mesabi Range Community and Technical College did not have supporting documentation for five of ten backdated registration cancellation transactions we tested. In addition, there was no authorization or reasons for the backdated cancellations on the forms for two other sample items.
- Mesabi Range Community and Technical College also inappropriately used waiver transactions to eliminate the accounts receivable for two students who claimed to never have attended classes and for two other students who dropped and added classes after the deadline. Using waiver transactions for these reasons did not comply with MnSCU's tuition waiver policy. Whether these adjustments should have been accomplished with backdated registration cancellations is uncertain because of the lack of a clear policy. These students may have had an obligation to pay their tuition.
- Mesabi Range Community and Technical College inappropriately used a waiver transaction for a student they believed was called to active military duty. MnSCU policy allows the school to refund tuition for a student called to active military duty. However, the school had no actual evidence that the student was a member of the military or was actually called to active duty. They relied on verbal information from the student's

family. Also, the transaction was not adequately documented or authorized by an appropriate college administrator.

- Minnesota West Community and Technical College did not maintain adequate documentation and approvals for certain backdated registration transactions. Ten of 24 backdated tuition and customized training cancellations did not have sufficient documentation, including explanations, approvals, or dates to determine the propriety of the transactions. Some backdated transactions that resulted from students who never attended class ("no shows") were not signed or dated by the instructor. In addition, 14 of the 24 transactions were not promptly processed. These transactions ranged from 17 to 508 days past the date the tuition was due.

Without sufficient documentation, the colleges were unable to support the validity of these transactions. Also, neither college had a formal policy defining the criteria for backdating transactions.

*Recommendations*

- *The colleges should ensure that backdated and waiver transactions to change student registration records are documented, authorized, and processed in a timely manner.*
- *The colleges should develop a policy defining when backdated transactions should be used and what approvals are necessary.*

**4. Fond du Lac Tribal and Community College did not have approved contracts with some customized training clients.**

Fond du Lac Tribal and Community College did not have fully executed contracts with some businesses for customized training services. The college provides customized training courses for businesses that are interested in training large numbers of employees. Four of the eight contracts we reviewed, for services totaling $106,582, were not approved by either the college or the business. The college provided the services and received the payments from the businesses. Without properly executed contracts, however, the college increases the risk that the terms and conditions of its agreements cannot be enforced, including its ability to collect for services performed.

*Recommendation*

- *The college should ensure that all customized training income agreements with its customers contain proper authorizations.*

**5. PRIOR FINDINGS NOT IMPLEMENTED: Two colleges did not refer some past due accounts to the Department of Revenue for collection, as required by statute.**

We found that two colleges did not adequately manage their accounts receivable. *Minnesota Statutes,* Section 16D.04, subd. 2(b), states that when a debt becomes 121 days past due, the state agency must refer the debt to the Department of Revenue for collection. In addition, MnSCU procedure 7.6.2 for accounts receivable management reinforces this requirement.

- As of June 30, 2004, Fond du Lac Tribal and Community College's accounts receivable balance was approximately $913,000. The college had not turned any accounts over to the Department of Revenue for collection, as recommended in our prior audit report. Also, the college did not place holds on student accounts with outstanding balances to prohibit them from registering for additional classes.

- Vermilion Community College had not submitted approximately $168,000 in uncollectible accounts receivable to the Department of Revenue for collection. The college did not submit any past due accounts for fiscal year 2003 and did not submit past-due accounts for fall semester 2003 until June 2004. In addition, the college did not monitor customized training accounts receivable. The college did not generate reports showing the accounts and related balances due for these classes. During testing, we found a $550 invoice generated by the college on July 15, 2004, for customized training services that had not been paid as of May 2005. The college was not aware that payment had not been received.

*Recommendations*

- *The colleges should submit uncollectible accounts to the Department of Revenue.*

- *Vermilion Community College should develop a process to manage customized training accounts receivable.*

- *Fond du Lac Tribal and Community College should consider placing holds on student accounts with outstanding accounts receivable balances to prevent them from registering for future classes.*

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# Chapter 4. Employee Payroll

### *Chapter Conclusions*

***The internal controls at the Office of the Chancellor and individual colleges generally provided reasonable assurance that payroll was accurately reported in the accounting records, and that payroll transactions complied with applicable legal provisions and management's authorization. However, we identified certain internal control weaknesses over payroll at the Office of the Chancellor and two colleges. In addition, one college did not accurately account for employee leave balances, resulting in immaterial errors in severance payments to two employees.***

***For the items tested, the Office of the Chancellor and the colleges complied with material finance-related legal provisions governing payroll.***

## Audit Objectives

Our review of employee payroll at the Office of the Chancellor and selected colleges focused on the following questions:

- Did the internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the expenditures comply with the significant finance-related legal provisions concerning payroll?

## Background Information

MnSCU uses the state's payroll system (SEMA4) to process payroll and MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS) to process personnel information. Payroll costs, including fringe benefits, for the Office of the Chancellor during fiscal year 2004 totaled $13,207,000. The amount is net of payroll costs allocated back to the individual colleges. The net payroll costs represent 82 percent of the total operating expenses of the Office of the Chancellor. Table 4-1 shows the expenses for salary and fringe benefits for fiscal year 2004 for the colleges included in the audit scope. Payroll costs are the most significant operating costs for the colleges.

**Table 4-1**
**Employee Payroll by Entity (in $000's)**
**Fiscal Year 2004**

| College | Employee Salaries[1] | Employee Fringe Benefits[1] |
|---|---|---|
| Anoka-Ramsey | $16,938 | $ 4,796 |
| Fond du Lac | 4,673 | 1,375 |
| MSC-Southeast Tech | 7,140 | 2,079 |
| Minnesota West | 12,646 | 3,968 |
| Mesabi Range | 5,914 | 1,766 |
| Rainy River | 2,271 | 702 |
| Vermilion | 3,359 | 1,091 |
| Total | $52,941 | $15,777 |

Note (1) SubObject Type Codes per MnSCU Accounting Expenditure Files: Employee Salaries = 06; Employee Fringe Benefits = 07.
Source: MnSCU Accounting System Data FY2004 as of June 30, 2005.

## Findings and Recommendations

### 6. The Office of the Chancellor and two colleges did not adequately separate the payroll and personnel data entry and review functions.

The Office of the Chancellor, Mesabi Range Community and Technical College, and Vermilion Community College did not properly separate duties within the payroll and personnel functions. Currently, the same person performs both the payroll data entry and review functions. The payroll clerk collects employee timesheets and processes biweekly payroll transactions on the state's payroll system. The same clerk also reviews the payroll register report. A review of the payroll register, produced by the state's payroll system, verifies proper input of timesheet hours, pay rates, and special transactions. When the same person performs both of these functions, the risk of undetected errors or irregularities increases.

Similarly, another staff person enters personnel information into SCUPPS and also verifies the resulting SCUPPS output reports. The personnel aide inputs employee information, such as faculty assignments and pay information into SCUPPS. The aide then reviews the SCUPPS output reports for accuracy.

We also observed that the employee responsible for entering human resources transactions into SCUPPS and SEMA4 for both colleges is also the back-up person for payroll entry. Our testing indicated that this employee entered a majority of the human resources transactions and also processed mass-time entry three times during our audit period. There was no evidence that an independent review of these payroll transactions had occurred. An independent review of human resources and payroll transactions would mitigate the risk of accounting errors or irregularities.

Finance policy PAY0028 requires state agencies to develop internal controls to ensure the accuracy of payroll and personnel transactions. The current process does not provide an independent review of the input of payroll data and gives employees the opportunity to change their own records in the payroll system.

*Recommendation*

- *The Office of the Chancellor, Mesabi Range Community and Technical College, and Vermilion Community College should have an independent person review payroll and personnel data entry.*

**7. Rainy River Community College did not accurately record leave balances for certain employees.**

Rainy River Community College did not accurately record leave balances in the State Colleges and Universities Personnel/Payroll System (SCUPPS) for three unclassified administrators and one faculty member. Errors in recording leave accruals and leave taken resulted in inaccurate leave balances for those employees. The leave balance errors resulted in incorrect severance payments to two employees: an underpayment to one employee of $513 and an overpayment to another of $219. Because the college did not establish procedures to independently verify the accuracy of recorded leave accruals and leave taken recorded in SCUPPS, it did not identify the errors. Such a review is important to ensure that employee leave balances are correct and resulting vacation and sick leave payouts are accurate.

*Recommendations*

- *Rainy River Community College should review leave balances for its current employees and correct any errors detected and should establish procedures to verify the accuracy of leave balances in SCUPPS on an ongoing basis.*

- *The college should pay one former employee the additional $513 owed and should recover the $219 overpayment from the other former employee.*

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# Chapter 5. Purchasing and Administrative Expenditures

### *Chapter Conclusions*

***Several colleges had inadequate controls over administrative expenditures, including purchasing and contracting processes. For the items tested, the colleges complied with the significant finance-related legal provisions concerning purchasing and administrative expenditures, except that Mesabi Range Community and Technical College, Fond du Lac Tribal and Community College, and Vermilion Community College did not follow all of the provisions of MnSCU purchasing policies.***

## Audit Objectives

Our review of administrative expenditures at the Office of the Chancellor and selected colleges focused on the following questions:

- Did the internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, and the expenditures complied with applicable legal provisions and management's authorization?

- For the items tested, did the transactions comply with the significant finance-related legal provisions concerning administrative expenditures?

## Background Information

The Office of the Chancellor and college departments and divisions initiate purchase requests and submit them to the respective business office for processing. MnSCU uses its Purchase Control System, a module within the MnSCU accounting system, to record and monitor purchasing transactions. MnSCU has established system-wide purchasing and contracting policies and procedures. Table 5-1 summarizes the material nonpayroll administrative expenditures during fiscal year 2004 for the colleges included in our audit scope. We determined our testing at each entity based on the materiality of the types of administrative expenditures incurred. Generally, we excluded transactions related to financial aid and bookstore activity.

**Table 5-1**
**Administrative Expenditures by Entity (in $000's)**
**Fiscal Year 2004**

| College | Purchased Services | Consultant/ Contract Services | Supplies | Land, Buildings, Equipment | Other |
|---|---|---|---|---|---|
| Anoka-Ramsey | $1,648 | $1,137 | $1,337 | $ 282 | $1,206 |
| Fond du Lac | 1,174 | 299 | 1,102 | 185 | 460 |
| Southeast Tech | 1,066 | 911 | 910 | 440 | 678 |
| Minnesota West | 1,038 | 677 | 1,342 | 766 | 1,084 |
| Mesabi Range | 584 | 156 | 775 | 126 | 482 |
| Rainy River | 190 | 72 | 154 | 13 | 257 |
| Vermilion | 663 | 189 | 270 | 39 | 563 |
| Total | $6,363 | $3,441 | $5,890 | $1,851 | $4,730 |

Note: SubObject Type Codes per MnSCU Accounting Expenditure Files: Purchased Services (10); Consultant and Contractual Services (15); Supplies (18); Land and Buildings (28); Equipment (27); Other includes Travel (16), Utilities (17), and Other Expenses (26).

Source: MnSCU Accounting System Data FY2004 as of June 30, 2005.

During fiscal year 2004, the Office of the Chancellor incurred nonpayroll operating expenses, net of depreciation and expenses charged back to colleges, of approximately $1.3 million. Purchased services represented 90 percent of this amount.

## Findings and Recommendations

**8. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Several colleges had inadequate internal controls related to documenting, processing, and recording various transactions in the accounting system.**

Several colleges had inadequate internal controls over the processing and recording of various expenditure transactions in the accounting system. We identified several errors and omissions in documentation and noncompliance with MnSCU purchasing policies, especially at Fond du Lac Tribal and Community College and Mesabi Range Community and Technical College. Vermilion Community College also had significant exceptions through fiscal year 2004. However, testing of fiscal year 2005 transactions showed improvement in some areas due to the implementation of new procedures. Below is a list of the type of issues we identified, although we did not find all exceptions at each of the colleges:

- Noncompliance with purchasing requirements, including bid policies;
- Services performed prior to encumbrance of funds
- Lack of executed contracts for some purchased services
- Transactions not sufficiently documented, including lack of authorization for purchases
- Lack of sufficient evidence of the receipt of goods prior to payment, payments not matching purchase orders or invoices, and invoices not paid promptly
- Incorrect entry of assets into equipment module; and
- Incorrect occurrence dates and object codes.

As a result of these errors, the colleges did not always comply with established purchasing policies as well as legal provisions over prompt payment of invoices. In addition, the colleges did not always ensure that they received goods or services before paying for them, and that they properly recorded transactions in the accounting system. The colleges use the accounting system to produce summary reports for budgetary planning and financial analysis. Incorrect coding of information would impact report totals and could have a potential impact on administrative decisions. We found similar exceptions at other colleges that we considered more isolated transactions rather than structural weaknesses in internal controls.

*Recommendation*

- *The colleges should strengthen controls to ensure compliance with MnSCU and college purchasing policies and accurate reporting of financial activity in the accounting system.*

**9. Rainy River Community College and the Office of the Chancellor had an inadequate separation of duties related to certain expenditures.**

Rainy River Community College did not properly separate duties related to purchasing and vendor payment and did not establish effective mitigating controls. A supervisory employee responsible for managing the financial activity of the college had the ability to perform all purchasing and disbursing functions, including the following:

-- Generating and authorizing purchase requisitions and purchase orders;
-- Processing expenditures and generating and signing checks;
-- Reviewing expenditures and monitoring cost center budgets; and
-- Maintaining fixed asset records.

Because the college has a small business office staff, it may not be able to adequately separate duties. If duties cannot be adequately separated, the college should establish effective mitigating controls to reduce the risk of inappropriate activity. Without adequate separation of duties or effective mitigating controls, errors or misappropriation of assets could occur without detection.

Two employees of the Office of the Chancellor also have both check writing and reconciliation responsibilities for the entity's local bank account. Normally, an individual not involved in writing checks from the local bank account should perform the bank reconciliation to ensure an adequate separation of duties. The Office of the Chancellor should segregate these responsibilities to provide for an independent review of the check writing function.

*Recommendations*

- *Rainy River Community College should adequately separate duties related to purchasing and processing payments to vendors or should establish effective mitigating controls.*

- *The Office of the Chancellor should separate the employee responsibilities of the local bank account reconciliation process from the check writing function.*

### 10. Two colleges did not follow the proper MnSCU contracting procedures.

Rainy River Community College and Anoka-Ramsey Community College did not follow MnSCU contracting procedures.

Rainy River Community College made several errors when contracting for services:

- The college did not find documentation of bids or quotes obtained for several construction projects, could not locate the contracts for three of those projects, and could not locate the invoices for a fourth project. MnSCU System Procedure 6.5.5 requires colleges to retain documentation of all bids or quotes received for a project. Documentation of contracts and invoices for those projects must also be retained. Without documentation, we could not determine if the college complied with the MnSCU requirements for obtaining bids or quotes for those projects, although documentation for some projects referred to bids or quotes submitted to the college.

- The college obtained services for several projects using only purchase orders instead of formal contracts. Those projects were for various facility repairs or improvements, including a sidewalk replacement project for $8,900 and a window replacement project for $3,620. Although obtaining services using only a purchase order may be appropriate in certain circumstances, such as when emergency plumbing services are needed immediately, generally the college should initiate formal contracts that clearly define the rights and duties of each party. Without a formal contract, the college may have limited recourse if a vendor fails to adequately perform its duties.

- The college did not include a required restriction clause in professional contracts with a local lawyer. MnSCU System Procedure 5.14.2, Part 10 requires contracts with law firms or lawyers to include the following clause: "Contractor's duties do not include providing legal services to the state within the meaning of *Minnesota Statute* 8.06." The college did not include the clause in any of the three contracts with the lawyer during the audit period.

- The college overpaid a contractor $765 for a construction project. A single contractor performed four construction projects for the college under separate contracts between September 2002 and June 2003. The college received and paid a final invoice of $765 for one project in early April 2003 and mistakenly paid the $765 as an additional invoice for one of the other projects later in April 2003.

- The college recorded expenditures for several facility construction projects with an incorrect object code. Of the 18 projects that occurred during the audit period, the college correctly recorded the expenditures for half with the object code for improvements/betterments to buildings and incorrectly recorded the expenditures for the other half with the object code for other purchased services. Incorrectly coded expenditures included those for a $159,111 project to upgrade venting for the college's chemistry lab. Object codes should accurately identify the nature of the expenditures. Incorrect object codes could cause expenditures to be misclassified in MnSCU's financial statements and could negatively impact the college's budgetary planning and financial analysis.

Anoka-Ramsey Community College did not always have fully executed contracts in place prior to contractors beginning work. We reviewed 15 contracts and in three instances found that work had begun prior to the authorized college official signing the contract. *Minnesota Statutes,* Section 16C.05, subd. 2, states in part that "A contract is not valid and the state is not bound by it and no agency … may authorize work to begin on it unless: it has first been executed by the head of the agency or a delegate who is a party to the contract…" Without a fully executed contract, the terms of the contract are not readily enforceable against either the state or the vendor.

*Recommendations*

- *Rainy River Community College should:*
  - -- *Establish procedures to ensure it retains sufficient documentation of bids or quotes, contracts, and invoices for contracted services;*
  - -- *Include the required restriction clause in all contracts with law firms or lawyers;*
  - -- *Recover the $765 overpayment from the contractor; and*
  - -- *Ensure that it records expenditures with appropriate object codes.*

- *The Office of the Chancellor should develop policies or procedures that specify when colleges should execute contracts for services and when services may be obtained using purchase orders only.*

- *Anoka-Ramsey Community College should ensure that all contracts are fully executed by all parties prior to the start of any work.*

**11. The Office of the Chancellor did not fully reconcile its equipment inventory to the accounting records.**

The Office of the Chancellor has not fully reconciled its equipment inventory balance to equipment purchases dating back to January 2001. The Office of the Chancellor experienced problems in the processing of documents relating to the purchase of equipment for information technology and facilities divisions, resulting in some purchases not being recorded in the equipment inventory. The office made a special effort starting in 2003 to reconcile outstanding discrepancies between its equipment purchases and its inventory records. However, as of December 2004, it had not completed this process, and equipment purchases totaling approximately $980,000 were not reconciled to its equipment inventory records.

## Minnesota State Colleges and Universities (MnSCU)

System procedure 7.3.6, Part 6, Section C6 provides that equipment with a cost of $5,000 or more be recorded in the equipment module. System procedure 7.3.16 requires reconciliation between equipment inventory and fixed asset purchases every six months. These procedures are important in ensuring the accuracy of the entity's financial reports and the physical safeguarding of purchased assets. Failure to fully perform this procedure could result in inaccurate balances as well as the loss or theft of the assets.

*Recommendation*

- *The Office of the Chancellor should resolve the difference between its equipment inventory and equipment purchases. It should also complete the reconciliation between equipment purchases and its equipment inventory on a regular basis.*

# Chapter 6. Joint Powers Agreements

### *Chapter Conclusions*

***The Office of the Chancellor's internal controls provided reasonable assurance that expenditures made under the joint powers agreements were accurately reported in the accounting records and were in compliance with applicable legal provisions and management's authorization. However, the Office of the Chancellor did not comply with certain of its responsibilities to serve as a fiscal agent for the Internet System for Education and Employment Knowledge Solutions (ISEEK) joint powers agreement. It also did not comply with reporting responsibilities for the Minnesota Library Information Network (MnLINK) joint powers agreement.***

## Audit Objectives

- Did the Office of the Chancellor's controls provide reasonable assurance that joint powers agreement expenditures were accurately reported in the accounting records and were in compliance with applicable legal provisions and management's authorization?
- For the agreements tested, did the Office of the Chancellor comply with applicable provisions governing roles and responsibilities?

## Background Information

The Office of the Chancellor participated in seven joint powers agreements during the audit period. *Minnesota Statutes*, Section 471.59 authorizes joint powers agreements between two or more governmental units. A joint powers organization is a legal entity that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain an ongoing financial interest or an ongoing financial responsibility. Each joint powers agreement provides unique responsibilities for the participants. Below is a summary of the four joint powers agreements included within the audit scope.

### *Rochester Regional Sports Complex*

Rochester Community and Technical College participated in a joint powers agreement with the City of Rochester for the construction and operation of a sports complex facility. MnSCU contributed $5 million, and the city contributed approximately $10.5 million to the cost of the facility's construction. The city and MnSCU share operating and management costs in proportion to their relative use of the facility. Rochester Community and Technical College and the MnSCU facilities division maintained thorough records that documented the expenditures relating to the construction and operation of the sports complex.

***Internet System for Education and Employment Knowledge Solutions (ISEEK)***

MnSCU participates in this joint powers agreement with the University of Minnesota and four state agencies: The departments of Administration, Employment and Economic Development, Education, and the Higher Education Services Office (HESO). The ISEEK governing board is comprised of one member from each organization. The agreement provides for on-line internet access to learning services and resources, business and workforce information, and career and education planning information. MnSCU contributed $330,000 in fiscal year 2004 for its share of the operating expenses and acts as the fiscal agent for the project.

***Minnesota Library Information Network (MnLINK)***

MnLINK includes the University of Minnesota, the Minnesota State Colleges and Universities, Minnesota state agencies, private colleges, public universities, K-12 school libraries, and special libraries. It is a shared automated system providing access to electronic resources including catalogs from over 20 Minnesota library systems and the Electronic Library for Minnesota. MnSCU contributed $40,000 in fiscal year 2004 for operational costs and provided fiscal services for MnLINK. MnSCU also provided technological and maintenance services. MnSCU had a supplemental interagency agreement whereby HESO would reimburse MnSCU for services provided to the project. For fiscal years 2004 and 2005 those reimbursements totaled $610,000.

***Project for Automated Library Services (PALS)***

*PALS* is a consortium of over 125 libraries. This system provides automated library services to MnSCU libraries, along with private colleges, state government agencies, and public libraries across the state. MnSCU provides development, maintenance, support, and training for PALS. PALS charges members user fees for services it provides. MnSCU system fees for fiscal year 2004 amounted to $837,000.

Issues related to the ISEEK and MnLINK joint powers agreements are discussed below.

## Current Findings and Recommendations

**12. The Office of the Chancellor did not maintain some official records of the ISEEK joint powers agreement and did not comply with certain provisions of the agreement.**

The Office of the Chancellor could not locate the original signed agreements that defined each individual party's obligations for ISEEK for fiscal years 2001-2003. Staff located an unsigned agreement for fiscal year 2001 and the fiscal year 2004 bylaws. The office needs to maintain signed copies of the agreements to document the acceptance of the agreement by all parties and to ensure it fulfills its responsibilities.

## Minnesota State Colleges and Universities (MnSCU)

As part of its responsibilities under the joint powers agreement, MnSCU is to provide an executive director for ISEEK. The executive director of ISEEK has a potential organizational conflict with MnSCU. The executive director is an employee of MnSCU but works for and reports directly to the ISEEK board. The responsibilities of this individual as an executive director of ISEEK could conflict with the employee's responsibilities for MnSCU.

The ISEEK joint powers agreement outlines special compliance requirements applicable to MnSCU. The Office of the Chancellor did not comply with some specific requirements of the joint powers agreement, as discussed below.

- MnSCU did not have an annual audit of funds received and disbursed as required by Section V of the 2000 agreement and did not provide annual reports to participating members of the agreement for fiscal years 2003 and 2004. In January 2005, the ISEEK board reviewed the agreement requirements for audits, and even though there were no financial audits, decided to accept the financial balances as of July 1, 2004. The board also approved an annual internal audit beginning in fiscal year 2005 and required quarterly reports be submitted to parties of the agreement.

- MnSCU did not bill ISEEK for legal costs incurred by its General Counsel's Office on behalf of ISEEK. The agreement provides that MnSCU will be reimbursed for those costs. MnSCU did not track the time staff spent on behalf of ISEEK. However, MnSCU staff estimated the legal costs incurred were minimal.

*Recommendations*

- *The Office of the Chancellor should ensure that it has the most recent joint powers agreement on file and should monitor its responsibilities under the agreement to ensure it complies with its fiduciary responsibilities, which include having an annual audit of funds received and disbursed, and providing annual reports to participants in the joint powers agreement.*

- *The Office of the Chancellor should resolve the potential organizational conflict of interest for the executive director of ISEEK.*

- *The Office of the Chancellor should maintain records of the legal costs it incurs for ISEEK and charge the entity for these costs.*

### 13. The Office of the Chancellor did not comply with a provision of the MnLINK joint powers agreement for fiscal year 2005.

In fiscal year 2005, the Office of the Chancellor did not submit timely quarterly reports to the Higher Education Service Office (HESO) seeking expense reimbursements for MnLINK costs that MnSCU incurred. The MnLINK agreement provides that HESO reimburse MnSCU for the cost of services upon receipt of quarterly progress reports. As of April 15, 2005, the Office of the Chancellor had not submitted the first two quarterly reports for fiscal year 2005 to HESO.

## Minnesota State Colleges and Universities (MnSCU)

The reports would have triggered HESO'S reimbursement payments to MnSCU totaling $125,000. MnSCU employees stated that these reports were difficult to prepare. However, the quarterly reports are necessary for HESO to be certain MnSCU had completed certain tasks and to initiate the payments.

*Recommendation*

- *The Office of the Chancellor should submit timely quarterly expense reimbursement reports to HESO for MnLINK costs incurred.*

# Status of Prior Audit Issues
# As of June 30, 2005

## Most Recent Audits

### College Audits

**Office of the Legislative Auditor** Table 7-1 shows the most recent prior OLA audit report and period covered for the entities included in the current audit scope. Generally, the scope of the prior audits included financial management, tuition and fees, customized training, payroll, bookstore operations, financial aid, and various administrative expenditures. As part of our current audit, we assessed the status of our prior audit recommendations for those issues related to computer system access, tuition and fees, payroll, and administrative expenditures. We did not follow up on other audit recommendations. The Office of the Chancellor and the individual colleges fully or substantially implemented 17 of 28 prior audit recommendations. Several colleges did not implement or only partially implemented the remaining prior audit recommendations. Those 11 issues have been carried forward in the current audit report.

**Table 7-1**
**Status of OLA Prior Audit Recommendations**
**As of June 30, 2005**

| College | OLA Report | Scope | Audit Area | Issue | Status |
|---|---|---|---|---|---|
| Office of the Chancellor | 02-42 | FY 1999-2001 | Financial Management | Untimely reconciliation of local bank account | Implemented |
| | | | Expenditures | Security access | Implemented |
| Anoka-Ramsey | 03-28 | FY 2001-2002 | Financial Management | Security access | Implemented |
| | | | Tuition | No documentation of backdated transactions | Implemented |
| | | | Tuition | Did not adequately safeguard receipts | Partially Resolved |

## Minnesota State Colleges and Universities (MnSCU)

| College | OLA Report | Scope | Audit Area | Issue | Status |
|---|---|---|---|---|---|
| | | | | | |
| Fond du Lac | 01-47 | FY 1998-2000 | Financial Management | Security access | Partially Resolved |
| | | | Tuition | No documentation of backdated transactions | Implemented |
| | | | Tuition | Did not monitor collection of past due accounts | Not Implemented |
| | | | Payroll | Did not complete annual performance evaluations | Implemented |
| | | | Expenditures | Lack of encumbrance, incorrect occurrence dates, late payments | Not Implemented |
| | | | Expenditures | Did not have contract for all Prof/Tech services | Implemented |
| Mesabi Range | 02-36 | FY 1999-2001 | Financial Management | Security access | Partially Resolved |
| | | | Payroll | Payroll clearing account | Implemented |
| | | | Expenditures | Incorrect occurrence dates | Not Implemented |
| | | | Expenditures | Improper purchases | Implemented |
| MSC-SE Tech | 01-36 | FY 1998 - 2000 | Financial Management | Security access | Implemented |
| | | | Expenditures | Incorrect occurrence dates, did not safeguard deliveries | Implemented |
| MN West | 02-43 | FY 1999-2001 | Tuition | Security access | Partially Resolved |
| | | | Tuition | Incorrect recording of grant revenue | Implemented |
| | | | Financial Management | Did not require staff to abstain from foundation votes | Implemented |
| | | | Expenditures | No written contracts with outside organizations | Implemented |
| Vermilion | 02-37 | FY 1999-2001 | Financial Management | Security access | Partially Resolved |
| | | | Tuition | Tuition waiver controls | Implemented |
| | | | Tuition | Safeguard tuition and fee receipts | Implemented |
| | | | Payroll | Payroll clearing account | Implemented |
| | | | Expenditures | Controls over purchasing and disbursements | Partially Resolved |
| | | | Expenditures | Compliance with MnSCU policy on bids | Not Implemented |
| | | | Expenditures | Incorrect occurrence dates | Not Implemented |

Note: The program areas that contained audit issues reported in the prior Rainy River Community College report (OLA Report 00-52) were not included in the current audit scope of that college, and therefore, no status is presented.
Source: Auditor prepared.

## Minnesota State Colleges and Universities (MnSCU)

### Other Audit Coverage

The Office of the Chancellor contracts with certified public accounting firms to annually audit the MnSCU consolidated financial statements and several individual college and university financial statements. MnSCU also obtains audit coverage of its federal student financial aid programs in accordance with the Single Audit Act. The Office of the Chancellor and the individual colleges and universities received unqualified financial statement audit opinions for the years audited. As a part of the fiscal year 2004 audit, the external auditor of the consolidated financial statements issued a management letter to MnSCU's Board of Trustees. The letter contained 12 observations and recommendations on accounting, administrative, and operating matters at individual colleges. The comments did not specifically mention any of the colleges included in our audit scope.

**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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Minnesota
STATE COLLEGES
& UNIVERSITIES

September 2, 2005

Mr. James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

The purpose of this letter is to respond to the recently conducted selected scope audits of seven colleges and the Office of the Chancellor.

The Office of the Legislative Auditor performs a vital part of our financial assurance program through its audits of the various colleges. The Board of Trustees, Chancellor McCormick and I strive to maintain an environment of the highest professional standards. The work of your staff has helped test that environment and provide continuing assurance that state laws and internal control procedures are in place and in force at our colleges and universities.

On behalf of the presidents and financial management staff at each of the colleges and the Office of the Chancellor, please extend our appreciation to the audit managers and audit staff responsible for each of the audits.

Attached please find specific responses to the audit findings.

*/s/ Laura M. King*

Laura M. King
Vice Chancellor/Chief Financial Officer

c: James H. McCormick, Chancellor
Selected Presidents and Chief Financial Officers

Minnesota State Colleges and Universities
Response to audit of seven colleges and Office of the Chancellor
Three years ended June 20, 2004

1. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Certain colleges did not ensure that access to computerized business systems was adequately restricted.

   Minnesota West Community and Technical College reviewed security access for the areas identified. Security was modified for individuals when appropriate. However, several people do need the ability to process certain transactions due to the number of campuses and need for primary and backup responsibility. Detective controls have been established where necessary.

   Fond du Lac Tribal and Community College reviewed and deleted any unnecessary system access. Detective controls were established where incompatible duties exist.

   Mesabi Range Community and Technical College implemented a process to review higher risk transactions on a quarterly basis.

   The Office of the Chancellor will begin a comprehensive review of the security clearances for payroll and personnel transactions. Colleges and universities will be provided guidance on potential incompatible duties. Security clearances for Office of the Chancellor staff will continue to be reviewed periodically. The Office of the Chancellor will keep colleges and universities informed of employees that have access to the campuses' accounting applications.

2. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Two colleges did not adequately secure their cash transactions.

   Anoka Ramsey Community College will continue to monitor the sharing of cash sessions. The College has made improvements to the daily deposit process including locking the safe and an armed courier service.

   Mesabi Range Community and Technical College will have both employees open cash sessions each day.

3. Two colleges did not sufficiently document or promptly process some transactions that waived or adjusted tuition charges.

   Both Minnesota West and Mesabi Range Community and Technical College have established procedures to ensure that waived or adjusted tuition charges are properly documented. Periodically, all waivers and backdated drop transactions will be reviewed for proper documentation. In addition, a policy defining the use of backdated drops and waiver transactions will be developed.

4. Fond du Lac Tribal and Community College did not have approved contracts with some customized training clients.

   The Continuing Education/Customized Training unit has attended contract training sessions and assumed responsibility for obtaining contracts from customers prior to providing services.

5. PRIOR FINDINGS NOT IMPLEMENTED:
   Two colleges did not refer some past due accounts to the Department of Revenue for collections, as required by statute.

   The Fond du Lac Tribal and Community College mission statement dictates an acceptance of college level students that typically are not fully prepared for post-secondary education. Also, the college is designated a minority serving institution. Much support is provided these students, success is achieved very slowly and amounts owed become secondary to subsistence. The College has begun placing holds on past due balances. Re-entering students must have a plan for payment in place before registration is allowed. In addition, a new position will manage accounts receivable, including turning accounts over to the Minnesota Department of Revenue collection unit.

   Vermilion Community College has realigned duties so that the business office will manage all accounts receivable.

6. The Office of the Chancellor and two colleges did not adequately separate the payroll and personnel data entry and review functions.

   The Office of the Chancellor payroll duties will be separated. A person not involved in transaction input will review reports for accuracy. Personnel data entry and review duties will also be separated.

   Mesabi Range Community and Technical College and Vermilion Community College have realigned duties. The individuals entering data into SCUPPS now have view only rights for SEMA4. The payroll clerk backup person will do mass time entries. This person has view only rights for SCUPPS. The Director of Human Resources will review the personnel and payroll data entry.

7. Rainy River Community College did not accurately record leave balances for certain employees.

The Northeast Higher Education District human resources director will verify the accuracy of leave balances in SCUPPS on an ongoing basis. The director will also investigate and correct the under and overpayments of former employees.

8. PRIOR FINDINGS NOT IMPLEMENTED OR PARTIALLY RESOLVED: Several colleges had inadequate internal controls related to documenting, processing, and recording various transactions in the accounting system.

   Fond du Lac Tribal and Community College, Vermilion Community College and Mesabi Range Community and Technical College are training employees in the areas of purchasing, contracts and business expense. Vermilion College has written a purchasing policy and has improved the receiving process. Mesabi Range is enforcing purchasing policies and is obtaining proper documentation. Fond du Lac College has improved internal controls. One person will be responsible for receiving goods. This will also improve the accuracy and timeliness of payments.

9. Rainy River Community College and the Office of the Chancellor had an inadequate separation of duties related to certain expenditures.

   Rainy River College will be reassigning some duties and will also consider mitigating controls to prevent the possibility of errors or misappropriations. The Office of the Chancellor segregated duties so that the bank reconciliation is done by a person not having check writing authority.

10. Two colleges did not follow the proper Minnesota State Colleges & Universities contracting procedures.

    The Office of the Chancellor will develop procedures that specify when colleges should execute professional/technical services contracts, and other contract forms, and when services may be obtained using purchase orders only. The procedure will be developed this calendar year.

    Rainy River Community College is developing a process to ensure that all documents are prepared and kept for all capital projects. Contracts will be prepared when appropriate and the restriction clause will be included in all contracts. The potential overpayment will be reviewed and repayment collected if due.

    The Anoka-Ramsey Community College business office will work with the customized training division to develop a process for timely processing of contracts.

11. The Office of the Chancellor did not fully reconcile its equipment inventory to the accounting records.

The Office of the Chancellor is in the process of resolving the differences between the equipment inventory and equipment purchases. The Office will perform the reconciliations on a periodic basis.

12. The Office of the Chancellor did not maintain some official records of the ISEEK joint powers agreement and did not comply with certain provisions of the agreement.

    The ISEEK Board provides ongoing oversight in the management and direction to the executive director. Minnesota State Colleges & Universities will work with the executive director and its ISEEK partners to actively engage a discussion on how to ensure continued autonomous decision making in keeping with ISEEK by-laws, guidelines and committee charges. Minnesota State Colleges & Universities will monitor its responsibilities under the joint powers agreement to ensure it complies with its fiduciary responsibilities. Minnesota State Colleges & Universities will also account for staff time supporting ISEEK including the charge-back of costs that fall within the Joint Powers requirements.

13. The Office of the Chancellor did not comply with a provision of the MnLINK joint powers agreement for fiscal year 2005.

    The Office of the Chancellor will submit timely quarterly expense reimbursement reports to HESO for MnLINK costs incurred.