OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota State Colleges and Universities

Internal Control and Compliance Audit

Fiscal Years 2008, 2009, and 2010 (through December 31, 2009)

September 14, 2010 **Report 10-29**

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

September 14, 2010

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. James McCormick, Chancellor
Minnesota State Colleges and Universities

Board of Trustees
Minnesota State Colleges and Universities

This report presents the results of our internal control and compliance audit of five colleges in the Minnesota State Colleges and Universities (MnSCU) system. Each of the college audits included reviews of security access to computerized accounting applications, banking, payroll, operating and administrative expenses, equipment, and capital projects for fiscal years 2008, 2009, and 2010, through December 31, 2009.

We discussed the results of the audits with MnSCU's management on August 24, 2010. The audits were conducted by Brad White, CPA, CISA, CFE, David Poliseno, CPA, CISA, CFE, and Amy Jorgenson, CPA (Audit Managers), Scott Tjomsland, CPA, CISA, Tim Rekow, CPA, and David Westlund, CPA (Auditors-in-Charge), and assisted by auditors Bridgette Leonard, Kathy Rootham, Adam Spooner, Lindsay Tietze, and Emily Wiant.

This report is intended for the information and use of the Legislative Audit Commission and the management and board of the Minnesota State Colleges and Universities. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 14, 2010.

We received the full cooperation of MnSCU's college staff while performing these audits.

James R. Nobles
Legislative Auditor

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Report Summary

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The five colleges in the Minnesota State Colleges and Universities (MnSCU) system included in our scope (Central Lakes, Ridgewater, Inver Hills, Riverland, and Pine) generally had adequate internal controls over their major financial activities, such as employee salaries and operating expenses. These controls generally ensured that the colleges safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. For the items tested, the colleges generally complied with finance-related legal requirements. However, the colleges had some internal control weaknesses and noncompliance in certain areas that have a high-risk for errors, including security access to financial systems, employee leave benefits, and management of equipment and college-issued credit cards.

The Office of the Chancellor did not resolve the four systemic findings from our 2009 audit report.[1] We repeat those findings in this report (Findings 2, 4, 5, and 6). The MnSCU colleges resolved some of the prior audit findings related to the areas we audited specific to this group of colleges. However, the colleges did not resolve some findings now classified as systemic findings and one other finding that we repeat in this report. (Finding 11)

Key Significant and Systemic Findings

- Systemic Finding: The colleges did not adequately assess their business risks or monitor the effectiveness of their internal controls. (Finding 1, page 7)
- Prior Systemic Finding Not Resolved: The colleges did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions. (Finding 2, page 8)
- Systemic Finding: The Office of the Chancellor did not justify payments of early retirement incentives, as required by the Minnesota State College Faculty bargaining agreement. (Finding 3, page 11)
- Prior Systemic Finding Not Resolved: Colleges did not accurately account for faculty and administrator leave benefits. (Finding 4, page 12)
- Prior Systemic Findings Not Resolved: Colleges did not have controls to properly manage equipment and credit cards. (Findings 5 and 6, pages 14 – 19)

[1] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009.

Other Findings

- The colleges we reviewed had other control weaknesses and noncompliance with various requirements for employee compensation, vendor procurements and payments, and employee expense reimbursements. (Findings 7 – 12, pages 20 – 27)

Audit Objectives and Scope

We examined internal controls and compliance at five MnSCU colleges: Central Lakes, Ridgewater, Inver Hills, Riverland, and Pine. Our review examined fiscal years 2008, 2009, and 2010, through December 31, 2009, over the following areas:

- Financial systems security access
- Operating expenses
- Local bank accounts
- Personnel and payroll expenses
- Equipment purchases and inventory
- Capital Projects

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities (MnSCU) system contracted with the Office of the Legislative Auditor to provide internal control and compliance audit coverage at the following five MnSCU colleges:[2]

- Central Lakes College (Central Lakes)
- Inver Hills Community College (Inver Hills)
- Pine Technical College (Pine)
- Ridgewater College (Ridgewater)
- Riverland Community College (Riverland)

Agency Overview

The MnSCU system is comprised of 32 state universities, community colleges, technical colleges, and the Office of the Chancellor. The MnSCU Board of Trustees appoints the chancellor and provides strategic direction and governance for the system.[3] The board appointed James H. McCormick as MnSCU Chancellor in July 2001.

The Office of the Chancellor is responsible for providing overall management and direction for the MnSCU system. The office reviews and coordinates educational programs, negotiates labor contracts, and administers system-wide financial management operations. It provides support to colleges and universities for budgeting, financial reporting, facilities management, information technology, student loan servicing, and faculty professional development. The office charges the colleges and universities for the cost of some centralized services.

The Office of the Chancellor requires all colleges to use MnSCU's accounting system, a part of its Integrated Statewide Record System, to process and record financial activities. The colleges use the MnSCU accounting system to generate payments from the state treasury and to account for money maintained outside of the state treasury in local bank accounts. The colleges use the local bank accounts to allow for greater flexibility in managing high volume transactions for financial aid, student activities, and auxiliary operations.

The colleges finance their operations through the Office of the Chancellor's allocation of state appropriations and the retention of their tuition and other receipts; this determines the college's total authorized spending level. The

[2] The contract is authorized by *Minnesota Statutes* 2009, 3.9741, subd. 2.
[3] *Minnesota Statutes* 2009, 136F.06 and 136F.07.

authorized spending level is the basis for establishing spending budgets for various administrative functions and academic departments. MnSCU's supplement to the annual financial report provides additional information on the colleges' financial operations.

Table 1 recaps student, employee, and financial information for the five colleges in our audit scope.

Table 1
Selected Information for Fiscal Year 2009

College	Student FYE[1]	Faculty FTE[1]	Staff/ Admin FTE[1]	Total Operating Revenue[2] (in 000's)	Total Operating Expenses[3] (in 000's)
Central Lakes	3,020	151	134	$31,760	$31,914
Inver Hills	3,784	214	143	$34,679	$33,666
Pine	516	34	64[4]	$10,072	$10,701
Ridgewater	3,306	213	148	$37,745	$39,069
Riverland	2,274	155	112	$27,059	$27,657

[1] FYE refers to the number of full-year equivalent students, and FTE refers to full-time equivalent positions.

[2] Total operating revenue includes tuition, federal and state grants, other income, and state appropriations allocated to each college.

[3] Colleges used prior years' accumulated reserves to fund expenses that exceeded revenues for fiscal year 2009.

[4] Pine Technical College's FTE count for staff and administrators includes 26 employees that work in its Employment and Training Center and 8 that are employed in the Johnson Center for Simulation.

Source: Financial information obtained from the MnSCU supplement to the annual financial report for the year ended June 30, 2009. Other data obtained from the MnSCU accounting system and MnSCU's budget and human resources divisions' web sites.

Objectives, Scope, and Methodology

Our audit included selected financial activities of the five MnSCU colleges. The audited activities included security over access to computerized accounting applications, banking, employee payroll, operating and administrative expenses (purchased services, employee expense reimbursements, and credit card purchases), equipment purchases and inventory, and capital project spending for fiscal years 2008, 2009, and 2010, through December 31, 2009.

Our audit objective was to answer the following questions:

- Were internal controls at the MnSCU colleges in our scope adequate to ensure that the colleges safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements?

- For the items tested, did the colleges comply with significant finance-related legal requirements over financial activities, including state laws, regulations, contracts, and applicable policies and procedures?

- Did the Office of the Chancellor resolve systemic findings resulting from our 2009 audit of other colleges?[4 & 5]

- Did the colleges resolve prior audit findings related to the areas we audited specific to this group of colleges?[6]

To answer these questions, we interviewed college staff to gain an understanding of the controls related to financial operations. In determining our audit approach, we considered the risk of errors in the accounting records and potential noncompliance with finance-related legal requirements. We also analyzed accounting data to identify unusual transactions or significant changes in financial operations for further review. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the colleges' controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.[7] We used state and federal laws,

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[4] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009.
[5] A systemic finding is defined as an internal control or compliance weakness noted at a majority of the audited colleges that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.
[6] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 07-25, *Minnesota State Colleges and Universities*, issued September 18, 2007.
[7] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting Internal Control-Integrated Framework is the accepted accounting and auditing standard for internal control design and assessment.

regulations, and contracts, as well as policies and procedures established by the Department of Management and Budget and MnSCU's internal policies and procedures as evaluation criteria over compliance.

We emphasize that this has not been a comprehensive audit of the financial operations of the individual colleges.

Conclusion

The five MnSCU colleges included in our scope generally had adequate internal controls over major financial activities, such as employee salaries and operating expenses. These controls generally ensured that the colleges safeguarded assets, accurately paid employees and vendors in accordance with management's authorization, produced reliable financial information, and complied with finance-related legal requirements. However, the colleges had some control weaknesses and noncompliance in certain areas that have a high-risk for errors, such as computer security access to financial systems, employee leave benefits, and management of equipment and college-issued credit cards.

For the items tested, the colleges generally complied with MnSCU policies and finance-related legal requirements. However, the colleges did not comply with some legal provisions related to leave benefits, procurement, credit cards, and employee expense reimbursements.

The Office of the Chancellor did not resolve the four systemic findings from the 2009 audit report. We repeat those findings in this report (Findings 2, 4, 5, and 6).

The colleges resolved most of the prior audit findings related to the areas we audited, specific to this group of colleges. However, the colleges did not resolve some findings now classified as systemic findings and one other finding that we repeat in this report. (Finding 11)

The following *Findings and Recommendations* section of the report identifies the internal control weaknesses and noncompliance concerns. The section is divided into two parts, as follows:

> **Section A** includes significant internal control weaknesses and compliance concerns related to specific colleges and systemic weaknesses noted at a majority of the colleges we audited. We think resolution of these findings requires direction, guidance, and oversight from the MnSCU Office of the Chancellor.
>
> **Section B** includes other internal control and compliance weaknesses related to the colleges. We think these findings can be effectively resolved by college management.

Findings and Recommendations

Section A – Significant and Systemic Findings

Finding 1

Systemic Finding: The colleges did not adequately assess their business risks or monitor the effectiveness of their internal controls.

Each college did not effectively assess its risks related to important operational and finance-related legal compliance areas, including computer access to their accounting applications, local bank accounts, personnel and payroll expenses, operating and administrative expenses, equipment purchases, and inventory. Further, the colleges did not have a comprehensive plan to monitor the effectiveness of their internal controls.

Although the colleges had documented their risks and internal controls over a number of financial cycles related to financial reporting, they had not extended their risk assessments to include other important risks associated with their operational and compliance responsibilities. The colleges were aware of certain risks, had many control activities in place, and performed selected internal control monitoring functions.

A comprehensive control structure has the following key elements:

- Personnel are trained and knowledgeable about finance-related legal requirements and applicable policies and procedures.
- Management identifies risks associated with finance-related legal requirements and develops policies and procedures to effectively address the identified risks.
- Management continuously monitors the effectiveness of the controls, identifies weaknesses and breakdowns in controls, and takes corrective action.
- Management focuses on continual improvement to ensure an acceptable balance between controls and costs.

Findings 2 through 12 identify deficiencies in the colleges' internal control procedures and specific noncompliance with finance-related legal requirements that were not prevented or detected by the college's internal control structure. These deficiencies created a risk of error or noncompliance not being prevented or detected. It is likely that the colleges will continue to have noncompliance and weaknesses in internal controls until they operate within a comprehensive internal control structure that includes operational and compliance risks in addition to financial reporting risks.

Recommendation

- *The colleges should frequently review and clearly document their risks, internal control activities, and monitoring functions related to their operational and compliance responsibilities.*

Finding 2

Prior Systemic Finding Not Resolved:[8] The colleges did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

The colleges provided employees with access to incompatible security roles within MnSCU's Integrated Statewide Record System without defining, documenting, or monitoring the effectiveness of mitigating controls. Separation of incompatible duties is a fundamental internal control. It typically involves the separation of authorization, custody, recordkeeping, and reconciliation duties among different people. Separation of incompatible duties is a *preventive control* designed to prevent the occurrence of errors or fraud. When separation of incompatible duties cannot be achieved, it increases the risk that errors or fraud could occur. To mitigate that risk, the entity needs to have *detective controls* to detect whether errors or fraud have occurred. The entity also needs to monitor whether employees perform the controls as designed and whether the controls are effective over time. In an environment where an entity does not separate incompatible duties and does not implement effective detective controls, there is a high risk that error or fraud could occur without detection.

In 2006, the Office of the Chancellor created incompatible security access tables that identified incompatible security roles in the accounts receivable, accounts payable, purchasing control system, and accounting modules in MnSCU's Integrated Statewide Record System. However, those tables did not always clearly define the risks created by those incompatibilities or recommend mitigating controls that could reduce those risks. As a result, colleges struggled to design and perform effective mitigating controls for the access incompatibilities it allowed employees to have.

[8] Minnesota Office of the Legislative Auditor, Financial Audit Division Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 1). A systemic finding is an internal control or compliance weakness noted at a majority of colleges or universities that we believe can most effectively be resolved by directive, guidance, or oversight by the Office of the Chancellor.

In December 2008, MnSCU began designing and developing a new security administration application. MnSCU planned to revise the incompatible security access tables by reassessing and redefining the incompatibilities, defining the risks, and identifying potential mitigating controls. MnSCU also planned to integrate those revised security access tables into the security administration application and implement it by December 2009. However, the implementation had not occurred as of May 2010, and MnSCU did not finalize or communicate revised incompatible security access tables to colleges.

In its existing incompatible security access tables, MnSCU identified 35 different incompatible combinations of security roles that included at least one role from the accounting, accounts payable, or accounts receivable module. Table 2 recaps the number of those incompatible combinations granted to employees without effective mitigating controls, the number of employees with at least one of those unmitigated, incompatible combinations, and the number of employees with unnecessary access to security roles not needed to perform assigned job duties.

Table 2
Incompatible or Unnecessary Access

MnSCU College	Unmitigated Incompatible Security Access Combinations[1]	Employees With One or More Unmitigated Incompatible Combinations	Employees With Unnecessary Access
Central Lakes	26	9	10
Inver Hills	9	14	3
Pine	15	4	1
Ridgewater	15	7	22
Riverland	16	7	1[2]

[1]Unmitigated incompatible security access combinations included those for which the college either did not design effective mitigating control procedures, or did not perform those procedures as designed.

[2]A South Central College employee had unnecessary access to Riverland's data in the state's personnel/payroll system.

Source: MnSCU Integrated Statewide Record System's security data.

Two colleges (Inver Hills and Ridgewater) developed mitigating control procedures for the majority of the incompatible security roles granted to employees and formally documented those procedures in writing; however staff did not perform all the procedures as designed. The other three colleges (Central Lakes, Pine, and Riverland) did not develop and document mitigating control procedures for most incompatible security roles granted. Pine did contract with the Office of the Chancellor's campus assistance unit for the performance of mitigating control procedures, but that contract ended in August 2008, after which Pine did not develop its own procedures.

A well-designed plan to address the risks created by allowing incompatible access should include written procedures that identify the specific employees who have incompatible access; the controls designed to mitigate the risks and an explanation of how the controls mitigate the risks; the frequency and steps involved in performing the mitigating controls; the individual(s) assigned to perform the mitigating controls; and the documentation necessary to monitor the performance of the controls.

Central Lakes and Ridgewater had a large number of employees with access to security roles they did not need to perform their job duties, primarily because the colleges had not developed procedures to periodically review employee access rights and recertify the necessity of assigned security roles. Central Lakes had three employees from the Information Technology Services Division of the Office of the Chancellor who had inadvertently been given access to many security roles for Central Lakes without the college's knowledge. Central Lakes had not identified and questioned the access for those three employees or initiated the removal of their access.

Recommendations

- *The colleges should eliminate employee access to incompatible security roles or establish detective controls to mitigate risks from providing incompatible access. The colleges should document detective controls developed in formal written procedures and perform those controls as designed.*

- *The colleges should delete employees' access to security roles determined to be unnecessary based on job responsibilities. Colleges should develop procedures to periodically review employee access rights and recertify the necessity of assigned security roles.*

- *The Office of the Chancellor should provide guidance to colleges to identify risks and to assist the colleges in developing effective detective controls that address the access incompatibilities.*

Finding 3

Systemic Finding: The Office of the Chancellor did not justify payments of early retirement incentives, as required by the Minnesota State College Faculty bargaining agreement.

The office did not justify early retirement incentives paid by Inver Hills, Ridgewater, and Riverland, totaling $816,350 to 13 faculty employees.[9] The Minnesota State College Faculty bargaining agreement provides for an early retirement incentive only where it can be shown that the early retirement prevents a layoff, allows the recall of a laid-off faculty member and/or results in a cost savings to the system. The Office of the Chancellor had not developed a formal process to analyze and document its compliance with these contract provisions.

Recommendation

- *The Office of the Chancellor should develop a formal process to analyze and document that payments for early retirement incentives complied with the related requirements of the Minnesota State College Faculty bargaining agreement.*

Finding 4

Prior Systemic Finding Not Resolved:[10] The colleges did not accurately account for faculty and administrator leave benefits.[11]

Colleges continued to have problems accounting for leave benefits. All five colleges made errors in posting leave earned and taken by some administrators and faculty. Errors in recording personal, sick, and vacation leave earned and taken resulted in inaccurate leave balances in the payroll system.

Colleges had a variety of errors in the items we tested with recorded leave earned, as follows:

- Three colleges (Central Lakes, Inver Hills, and Riverland) had five instances where administrators accrued less vacation leave than they were entitled to during their first fiscal year at a higher accrual rate.[12]

- Inver Hills had two instances where administrators at the lowest accrual rate accrued more vacation leave than they were entitled to, and Ridgewater had one instance where an administrator at the lowest accrual rate accrued less vacation leave than she was entitled to.

[9] Inver Hills paid early retirement incentives totaling $489,200 to eight employees; Ridgewater paid incentives totaling $190,650 to three employees; and Riverland paid incentives totaling $136,500 to two employees.
[10] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 2).
[11] MnSCU colleges maintain leave records for administrators and faculty in MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS).
[12] The Personnel Plan for Administrators for 2009-2011, Appendix A, Subd. 2, establishes the vacation leave accrual rates.

- Ridgewater had four instances where administrators did not receive a prorated vacation leave accrual for a partial pay period worked at the beginning of their appointments.[13] The vacation leave accrual for one of those administrators for her first full period employed was also inappropriately prorated.

- Ridgewater had one instance where it approved an earlier leave accrual date for a new administrator, but the administrator did not properly receive vacation leave at the higher accrual rate in the fiscal year the college approved the earlier accrual date.[14] Pine had one instance where an administrator accrued less vacation leave than she was entitled to, because the college recorded an inaccurate leave accrual date in the payroll system.

- Pine had problems with leave adjustments: The college had five instances where it added one vacation leave day to administrator balances based on a misinterpretation of language in the Personnel Plan for Administrators. In fiscal year 2007, the plan added one day to the vacation leave accrual schedule in lieu of the floating holiday. The college did not recognize that the additional day was already incorporated into the schedule and the automated leave accruals and that no adjustment was necessary. Pine also had one instance where it posted adjustments to add personal and sick leave accruals for a faculty employee that duplicated automated leave accruals subsequently posted. Finally, Pine posted an adjustment to add one day of leave earned by a faculty employee for summer instruction, but incorrectly added a day of personal leave instead of sick leave.

- Ridgewater and Pine each had one instance where a faculty employee did not accrue additional sick leave for summer instruction assignments.[15]

- Pine had one adjunct faculty employee who accrued leave she was not entitled to, and one part-time faculty employee who did not accrue the appropriate amount of leave.[16]

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[13] The Personnel Plan for Administrators for 2009-2011, Appendix A, Subd. 2, states that administrators employed for less than a full pay period at the beginning or end of their appointment shall have the vacation leave prorated for the applicable pay periods.

[14] The Personnel Plan for Administrators for 2009-2011, Section 1.06, Subd. 1(a), allows college presidents to authorize earlier leave accrual dates based on prior related employment. It also states that the resulting change in accrual rate is effective in the fiscal year the change was authorized.

[15] The Minnesota State College Faculty Agreement for 2009-2011, Article 14, Section 3, Subd. 5, provides for faculty to accrue an additional day of sick leave for every multiple of three summer instruction credits assigned, up to three additional days.

[16] The Minnesota State College Faculty Agreement for 2009-2011 defines 'adjunct' faculty as those that teach less than five credits in a semester and are not eligible for leave. 'Part-time' faculty employees teach five or more credits in a semester and earn prorated leave based on their credit load, with leave taken also prorated.

- Riverland maintained leave records for part-time faculty employees manually instead of in the payroll system. We found that the college did not keep any leave records for one part-time faculty employee.

In its response to similar errors noted in the prior audit report, MnSCU stated that in 2009 a task force reviewed the functionality of MnSCU's State Colleges and Universities Personnel Payroll System for leave accounting, including the automated process for leave accruals, and determined it was working appropriately; however, the types of errors noted in the first three bullets above appeared to be caused by errors in the automated process for leave accruals. The colleges will need to have procedures in place to ensure the accuracy of employee leave balances until the Office of the Chancellor centrally addresses the automated accrual problems.

The colleges had some errors in the items we tested with the accuracy of leave taken, as follows:

- Central Lakes had one and Pine had two instances where employees took leave, as evidenced by timesheets or leave forms, but the colleges did not record the leave taken.

- Ridgewater had one and Riverland had two instances where the college could not provide documentation for recorded leave taken.

- Three colleges (Central Lakes, Inver Hills, and Pine) each had one posting error where the recorded leave taken amounts did not match the amounts on timesheets or leave forms.

- Inver Hills and Riverland each had one posting error where the recorded amount of leave taken was accurate, but posted to the wrong leave type.

- Riverland allowed one faculty employee to use a fourth day of personal leave in a semester without the approval of the college's president.[17]

Recording leave taken is highly susceptible to the types of errors noted because it is a manual process. None of the colleges had procedures to independently review recorded leave taken to ensure accuracy. Performing this type of review would allow colleges to identify and correct these types of errors.

[17] The Minnesota State College Faculty Agreement for 2009-2011, Article 14, Section 5, limits the use of personal leave to three days in a semester, but allows for a fourth or fifth day if approved by the college president.

Recommendations

- *The colleges should correct the errors noted. The Office of the Chancellor should provide guidance to colleges to help them develop effective controls to ensure accurate accounting for faculty and administrator leave benefits.*

- *Riverland should maintain leave records for part-time faculty in the payroll system.*

Finding 5

Prior Systemic Finding Not Resolved:[18] The five colleges did not adequately manage their equipment and sensitive asset inventories.

The colleges had weaknesses with their management of equipment and sensitive asset inventories, including noncompliance with MnSCU policies and procedures, and other problems that hindered the colleges' ability to properly safeguard their assets.

The colleges had the following weaknesses:

- Three colleges (Central Lakes, Inver Hills, and Ridgewater) did not have sufficient procedures to ensure they properly recorded all equipment and sensitive assets in MnSCU's inventory system, including the following examples:[19]

  - Central Lakes did not record six equipment purchases, totaling $72,853, in the inventory system after it miscoded those assets as sensitive items rather than as equipment in the accounting system. Because of the miscoding, the college's reconciliation between the inventory system and accounting system equipment purchases did not identify the omission.

  - Inver Hills and Ridgewater did not record some sensitive items (52 and 150 computers, respectively) in the inventory system. In addition, the two colleges made other recording errors in the inventory system, such as recording a sensitive asset with two different asset numbers

[18] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 3).

[19] MnSCU Procedure 7.3.6, Part 3, Subpart A (6), requires colleges to record all equipment, defined as tangible items with a value of $10,000 or more, and all computers, regardless of price or age, in MnSCU's inventory system. MnSCU changed its defined minimum value of equipment items from $5,000 to $10,000 in June 2009. Subpart A (7) states that all sensitive items will be recorded in the inventory system and provides examples of sensitive items, including weapons and electronics.

and recording sensitive assets at incorrect values. MnSCU's policy requires colleges to record sensitive assets in the inventory system. Neither college developed a detective control to compare sensitive asset purchases to the assets recorded in the inventory system. In an effort to assist colleges in developing a detective control MnSCU planned to implement a new object code for sensitive asset purchases and a detective control report to identify discrepancies between purchases and the inventory system by the end of fiscal year 2010.

- Four colleges (Central Lakes, Inver Hills, Pine, and Ridgewater) did not properly notify the business office when staff disposed of equipment and sensitive items. The business offices at each college often found out about asset disposals when the colleges performed physical inventories. Not formally documenting asset disposals and promptly communicating them to the business office increases the risk of assets being misappropriated without detection or otherwise being disposed of improperly. The lack of communication also prevents colleges from promptly recording asset disposal transactions in the inventory system, as required by MnSCU policy.[20]

- Riverland did not sufficiently document its sales of surplus computers. The college sold several batches of obsolete computers to electronics recycling companies. Because the lists of items sold did not identify asset numbers, the college could not link the sales to specific asset disposal forms and could not verify that it collected and deposited the appropriate amounts from the sales of the computers. The college also did not properly record the proceeds from the sales of computers with the object code for equipment sales. Finally, the college did not always record disposal transactions for the sold computers in the inventory system in a timely manner. The college recorded the disposal transactions for 48 computers more than one year after it sold the items.

- Inver Hills and Riverland did not always retain documentation of physical inventories performed.[21] Inver Hills stated that it performed annual physical inventories of all assets with values of $10,000 or more and one-third of all other assets; however, it could not locate the documentation to support the assets it inventoried in some departments. Similarly, Riverland could not locate the documentation to support the annual physical inventory of assets with values of $10,000 or more it said it conducted in fiscal year 2009.

[20] MnSCU Procedure 7.3.13, Part 4, requires colleges to remove disposed items from the inventory system at the time of disposal.
[21] MnSCU Procedure 7.3.6, Part 4, requires colleges to perform an annual physical inventory of all assets with an acquisition cost or value of $10,000 or greater and a physical inventory of all other assets recorded in the inventory system at least every three years.

Recommendations

- *The Office of the Chancellor should implement the planned enhancements for recording sensitive assets and ensure that colleges are aware of and adequately trained to use those enhancements.*

- *The colleges cited should improve internal controls over equipment and sensitive assets by implementing procedures to ensure that they:*
  - *properly record all equipment and sensitive assets in the inventory system;*
  - *document asset disposals and promptly record disposal transactions in the inventory system;*
  - *sufficiently document asset sales; and*
  - *retain complete documentation of physical inventories.*

Finding 6

Prior Systemic Finding Not Resolved:[22] The five colleges did not sufficiently control employees' use of college-issued credit cards.

Each college had weaknesses with their oversight of purchases made by employees that had college-issued credit cards. Some of the credit card transactions we tested did not fully comply with MnSCU's policies and procedures. MnSCU designed these policies and procedures to limit the risk that employees may use college credit cards to buy inappropriate items and to ensure credit card purchases comply with its other purchasing and travel-related policies and procedures.

The colleges had the following weaknesses:

- **Credit cards not in individual employee names** – Inver Hills had one and Riverland had several credit cards in the name of the college and a college department instead of in the name of the college and an individual college employee, as required by MnSCU procedure.[23]

- **Insufficient card limits** - Three colleges (Central Lakes, Inver Hills, and Ridgewater) did not establish transaction limits and did not restrict the use of credit cards by blocking purchases from certain merchant categories (for example, alcohol or entertainment) as required by MnSCU procedure.[24]

[22] Minnesota Office of the Legislative Auditor, Financial Audit Division, Report 09-30, *Minnesota State Colleges and Universities*, issued September 8, 2009 (Finding 4).
[23] MnSCU Procedure 7.3.3 allows colleges to obtain institutional credit cards in the name of the college and an individual employee.
[24] MnSCU Procedure 7.3.3, Part 4, requires colleges to establish procedures to monitor credit card use, including dollar limits per transaction and the use of merchant category blocking.

Central Lakes and Ridgewater did not set dollar limits for individual purchases or utilize merchant category blocking for any of its cardholders, while Inver Hills did not place those restrictions on its credit card used for bookstore purchases.

- **Lack of receipts for purchases** - Three colleges (Central Lakes, Ridgewater, and Riverland) had cardholders that did not provide original itemized receipts for some purchases, as required by MnSCU procedure.[25] In addition, Riverland had cardholders whose monthly credit card purchases were not always reviewed and approved by supervisors, as required by the college's internal policy.

- **Unallowable purchases** – For the items tested, four colleges (Central Lakes, Pine, Ridgewater, and Riverland) had cardholders that purchased unallowable items.[26] Examples included:

  - *Individual Meals and Travel Expenses* – Central Lakes, Pine, and Ridgewater had cardholders that paid for individual meals or other travel-related expenses (such as parking, baggage fees, and gasoline) with their credit cards. Riverland had one cardholder purchase an individual meal while not in travel status. Instead of using college credit cards, the employees should have paid those expenses with personal funds and submitted claims on employee expense reimbursement forms so that the colleges could determine whether the expenses met reimbursement requirements.

  - *Entertainment* – Riverland had cardholders who made entertainment purchases for student activities that were paid for with student activity fees. The cardholders purchased tickets to a local amusement park (Valleyfair) totaling $500. MnSCU procedures prohibit the use of college credit cards for entertainment and do not have different criteria for student activity purchases.

- **Late fees and finance charges** – Three colleges (Inver Hills, Pine, and Ridgewater) incurred late payment fees and finance charges from credit card account balances not paid in full by statement due dates, as follows:

  - Inver Hills incurred $312 in late payment fees and finance charges assessed on eight separate monthly statements for the credit card account used by its bookstore. The late fees occurred because the cardholder did

[25] MnSCU Procedure 7.3.3, Part 7, requires cardholders to obtain and retain original itemized receipts for all purchases.
[26] MnSCU Procedure 7.3.3, Part 6, lists items not allowed to be purchased with credit cards, including individual meals and other travel expenses and entertainment or recreation items.

not always submit monthly statements and required documentation to the business office in a timely manner, as required by MnSCU policy.[27]

- Pine incurred $163 in late payment fees assessed on four separate monthly statements. In each instance, the college did not pay the credit card vendor before the payment due date. The college attributed the payment delays to business office staff turnover and reassignment of duties.

- Ridgewater incurred $459 in finance charges assessed on eight separate monthly statements with one credit card vendor and $47 in late payment fees assessed on three separate monthly statements with another credit card vendor. The college's credit card purchasing process contributed to the late fees and finance charges. Instead of creating blanket purchase orders for credit card purchases and processing monthly payments for the entire statement balance, the college prepared individual purchase orders and processed separate payments for each purchase.[28] In addition, the college required payment approvals from the employees that approved the purchase requisitions instead of from the cardholders that made the purchases.[29] Untimely payment approvals for some purchase orders delayed payments, which resulted in late fees and finance charges.

➢ **Use of gasoline cards –** Three colleges (Pine, Ridgewater, and Riverland) did not comply with MnSCU's credit card policy because they used credit cards issued by service station companies. None of the cards were in an individual employee's name, and all could be shared by multiple employees.[30] In addition, Ridgewater employees inappropriately used gasoline cards for eleven purchases of merchandise, such as beverages or snacks for personal consumption, inappropriately used the cards to purchase gasoline for personal or rental cars while in travel status, and did not submit receipts for most purchases. If MnSCU believes that it is reasonable to have a gasoline card assigned to each college-owned vehicle for users to purchase gasoline for those vehicles, MnSCU should consider revising its credit card policy or creating a new policy that allows and controls the use of gasoline cards.

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[27] MnSCU Procedure 7.3.3, Part 7, requires cardholders to promptly review monthly credit card statements and to promptly submit the statements, original itemized receipts, and any other documentation to the business office for payment processing. It defines promptly as within five days.

[28] MnSCU Procedure 7.3.3, Part 2, states that the purpose of a credit card purchasing program is to provide colleges and universities with a cost-effective, convenient, and streamlined method of purchasing items, thereby reducing the volume of individual payments.

[29] MnSCU Procedure 7.3.3, Part 7, requires each individual cardholder to review their charges on monthly credit card statements, verify that charges are legitimate and accurate, and approve the payment of those charges.

[30] MnSCU Procedure 7.3.3, Part 3, requires college credit cards to be in the name of the college and an individual employee, and Part 7 prohibits sharing credit cards.

Recommendations

- *The Office of the Chancellor should enhance its training of business office staff and cardholders to ensure that they are aware of MnSCU's credit card policies and procedures and the consequences of noncompliance with those policies.*

- *The colleges should improve their oversight of purchases made by employees with college credit cards to ensure compliance with MnSCU's credit card and other purchasing policies and procedures.*

- *The Office of the Chancellor should determine whether to allow the use of gasoline cards and revise its credit card policy or establish a new policy, as necessary.*

Section B – Other Findings

Finding 7

The five colleges inaccurately compensated some faculty employees.

All of the colleges made some mistakes in compensating their faculty. Faculty contracts define the terms of faculty compensation. Colleges typically pay faculty based on course credits taught, although these employees may earn additional compensation for special assignments, such as supervising student internships. The colleges' academic departments generally authorize and report faculty assignments to their human resources departments, who then record those assignments in the personnel and payroll system and schedule salary disbursements.

The colleges had the following errors for the sample transactions we tested:

- Inver Hills and Riverland miscalculated compensation amounts for some overload assignments.[31] Inver Hills overpaid a faculty employee by $3,982, because an academic department authorized an incorrect number of overload credits. Riverland underpaid two faculty employees by about $900 and $600, respectively, because its human resources department inaccurately calculated the credit equivalencies for technical college faculty instruction assignments based on student contact hours.

- Pine underpaid a faculty employee by $5,109 for summer instruction, because its human resources department incorrectly recorded the number of credits for the summer instruction assignment in MnSCU's personnel and payroll system.

- Ridgewater and Riverland miscalculated compensation amounts for some internship supervision assignments.[32] Ridgewater overpaid three and underpaid four faculty employees by $805 and $1,058, respectively; and Riverland underpaid one faculty employee by $364. In each instance, the colleges accurately calculated the number of credits for internship supervision but did not properly round those credits to the nearest one-half credit, as required.

[31] The Minnesota State College Faculty Agreement for 2009-2011, Article 13, Section 17, defines overload assignments as any assignment that exceeds the maximum workload limits of 30 credits for community college faculty and 32 credits for technical college faculty.
[32] The Minnesota State College Faculty Agreement for 2009-2011, Article 11, Section 1, Subd. 2, establishes a formula to calculate the credit equivalencies of internship supervision assignments and states that the calculated number of credits must be rounded to the nearest one-half credit.

- Inver Hills overpaid an adjunct faculty member by $222 for an instruction assignment.[33] Although the college accurately recorded the compensation amount for the assignment in MnSCU's personnel and payroll system, the actual salary payments exceeded that amount.

- Ridgewater miscalculated the compensation amount for a fiscal year 2010 sabbatical assignment.[34] The college improperly rounded factors used in the calculation, which caused a potential overpayment of $226. However, after we identified the error to the college, it corrected the assignment before an overpayment occurred.

- Each college miscalculated severance payments to former faculty employees. Three colleges (Central Lakes, Pine, and Ridgewater) each used incorrect leave balances in their severance calculation for one faculty employee, which resulted in underpayments of $50 and $934 and an overpayment of $119, respectively. In addition, Riverland underpaid severance to one faculty employee by $214 after it incorrectly recorded the second installment amount in MnSCU's personnel and payroll system. Finally, Inver Hills underpaid severance to two former faculty employees by nearly $200 each when it did not recalculate the severance amounts for retroactive salary increases.

Recommendations

- *The colleges should improve controls ensuring they accurately compensate employees.*

- *The colleges should resolve the compensation errors made to their employees.*

Finding 8

The five colleges reimbursed employees for questionable expenses or did not require employees to provide sufficient documentation to substantiate claimed expenses.

The colleges reimbursed employees for expenses that were inappropriate, inaccurate, or not adequately documented. The colleges had the following errors for the sample transactions we tested:

- The colleges reimbursed some employees for questionable mileage claims and other employees without sufficiently documenting those claims. In some

[33] The Minnesota State College Faculty Agreement for 2009-2011, Article 13, Section 12, Subd. 2, defines 'adjunct' faculty as those that teach less than five credits in a semester and sets the maximum compensation rate at $1,200 per credit.
[34] The Minnesota State College Faculty Agreement for 2009-2011, Article 17, Section 4, Subd. 8, establishes compensation amounts for sabbaticals, including two-thirds of base salary for a first time full-year sabbatical.

instances, the colleges did not require the employees to include any relevant information to support claimed mileage. For example, Ridgewater reimbursed one employee over $15,000 over a two and one-half year period based on expense reimbursement forms that only listed the total miles driven for the day and the description as "farm calls." In other instances, employees listed destination cities on expense reimbursement forms, but the miles claimed appeared overstated based on Internet mapping tools. Although those claims may have included undocumented local miles, the colleges paid the claims without validating the mileage. To ensure accurate mileage reimbursement claims, MnSCU policy requires employees to provide the city and address of each stop and departure and arrival times for each stop.[35] Colleges could establish procedures for business office staff to validate mileage, which could include requiring employees to attach travel routes from reliable Internet mapping tools to expense reimbursement forms and establishing mileage tables for commonly traveled destinations.

- Central Lakes did not sufficiently document its basis for the mileage reimbursement it paid to one employee for a trip the employee elected to drive rather than fly. The college did not perform an analysis to determine whether the cost of driving exceeded the cost of airfare. Instead of performing the analysis and limiting the reimbursement to the cost of airfare, as required by MnSCU policy, the college reimbursed the employee nearly $1,400 for mileage.[36]

- Inver Hills overpaid one employee for mileage reimbursement claims by about $65, because the employee did not claim the lesser of miles from home or the college to the destination, inappropriately claimed mileage for a trip to the college from home on a Saturday, overstated the miles from Inver Hills to another college, and miscalculated mileage reimbursement amounts.[37]

- Two colleges (Inver Hills and Ridgewater) reimbursed employees for ineligible meals. Inver Hills improperly reimbursed two employees by $300 and $18, respectively, for several dinners when the employees worked past

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[35] MnSCU Procedure 5.19.3, Part 7, Subpart D, states that mileage reimbursements must comply with state policy. State of Minnesota Payroll Policy PAY0021 defines trip miles as those traveled from city to city using the most direct route and local miles as 1) miles traveled in the vicinity of the permanent work location, or 2) additional miles traveled to accomplish the purpose of trips before and after reaching each destination city. It also states that addresses for all stops must be listed for claims that include local miles.

[36] MnSCU Procedure 5.19.3, Part 6, states that reimbursement for personal vehicle use in lieu of airfare shall not exceed the lowest round trip coach airfare.

[37] State of Minnesota Payroll Policy PAY0021 states that allowable mileage is the lesser of the mileage from the employee's residence or permanent work location to the first stop, all mileage between points visited on state business during the day, and the lesser of the mileage from the last stop to the employee residence or permanent work location.

7:00 p.m. but were not in travel status.[38] Ridgewater improperly reimbursed one employee for a breakfast when the employee was not in travel status and improperly reimbursed another employee for the full cost of a meal that exceeded the maximum amount allowed.[39]

- Central Lakes reimbursed two employees for expenses without requiring the employees to provide original itemized receipts, as required by MnSCU policy.[40] The college reimbursed one employee about $1,320 for airfare, classes and tours, room and board, and books and materials for which the employee provided only canceled checks or copies of credit card bills for some expenses and no documentation for others. The college reimbursed another employee $716 for software purchases over the internet without payment confirmations.

- Four colleges reimbursed employees for travel and other expenses without proper approval: Central Lakes ($1,498 reimbursed to one employee for an international trip), Inver Hills ($900 to one employee for an out-of-state trip), and Riverland ($1,728 to one employee for an out-of-state trip) reimbursed some employees without documented advance approval.[41] In addition, Ridgewater reimbursed two employees a total of $1,930 for expenses on expense reimbursement forms without supervisor approvals.

Recommendations

- *The colleges should develop procedures requiring employees to provide sufficient detail to substantiate mileage claims and business office staff to verify the distances claimed for mileage reimbursement.*

- *Central Lakes should determine whether it overpaid the mileage reimbursement to the employee cited and recover any overpayment. Inver Hills should recover the overpaid mileage reimbursements cited.*

[38] State of Minnesota Payroll Policy PAY0021 states that employees may claim reimbursement for dinner only if state business caused arrival at home from travel status after 7:00 p.m. or an overnight stay away from home. The policy also defines travel status as work performed more than 35 miles from the permanent work location.

[39] Employment contracts establish meal reimbursement rates, which are generally $7 for breakfast, $9 for lunch, and $15 for dinner.

[40] MnSCU Procedure 5.19.3, Part 10, Subpart B, requires original itemized receipts for all expenses except meals, taxi services, baggage handling, and parking meters, and states that canceled checks and copies of credit card bills do not substitute for original receipts.

[41] MnSCU Procedure 5.19.3, Parts 3 and 11, requires written prior approval for all out-of-state and international travel prior to any travel and the actual incurrence of expenses.

- *Inver Hills and Ridgewater should recover the ineligible meal reimbursements cited and develop procedures to ensure they only reimburse employees for eligible meals.*

- *Central Lakes should improve controls to ensure it only reimburses employees for expenses supported by original itemized receipts.*

- *Central Lakes, Inver Hills, and Riverland should improve controls to ensure that the colleges approve all out-of-state and international travel in advance, and Ridgewater should improve controls to ensure that it does not pay any expense reimbursements without supervisor approval.*

Finding 9

Two colleges did not promptly reconcile and resolve differences between their local bank account balances and the MnSCU accounting system.

Inver Hills Community College and Pine Technical College had the following problems with local bank account reconciliations to the MnSCU accounting system:

- As of March 2010, Inver Hills had not completely reconciled its local bank account to the MnSCU accounting system since July 2008. The college attempted to complete each monthly reconciliation but was unable to identify and resolve the causes of differences between the local bank account and the accounting system. In December 2009, the college contracted with another MnSCU campus for assistance; however, as of May 2010, the college was still not current with the reconciliations.

- Pine did not reconcile its local bank account to the MnSCU accounting system in a timely manner from July 2009 to December 2009. It took the college until February 2010 to get the bank reconciliations up to date through December 2009. In addition, bank reconciliations for the period January 2010 through March 2010 were completed by the college in a timely manner; however, there were some transactions that needed to be correctly recorded, further researched, or were awaiting resolution from the Office of the Chancellor in order to resolve reconciliation differences.

By not identifying and resolving bank differences in a timely manner, the colleges have an increased risk of fraud and inaccurate recording of financial transactions.

Recommendation

- *Inver Hills and Pine should reconcile their local bank accounts and resolve differences in a timely manner.*

Finding 10

Pine Technical College did not ensure that its bank pledged sufficient collateral to protect the college's funds.

Pine Technical College did not always have sufficient collateral to protect its assets from loss if the bank should fail. Pine's local bank account was under-collateralized by as much as $904,803 for seven days in early February 2009 and as much as $310,798 for another six days later in the month. The college told us it was unable to obtain additional collateral from its bank because the bank did not have sufficient financial resources. By the time the bank failed in June 2009, the college had changed banks and avoided the potential for any losses as a result of the bank failure. However, since establishing an account at the new bank, the college had not consistently monitored the sufficiency of collateral pledged to protect its deposits. As of May 2010, the college had not updated its records to show whether the bank had sufficient collateral in place.

To protect and secure public funds on deposit at banks, *Minnesota Statutes* require public entities, including MnSCU colleges, to pledge collateral for deposit balances with the fair value of the collateral at least ten percent greater than the amount on deposit.[42] MnSCU procedure reiterates this statutory requirement.[43]

Recommendation

- *Pine Technical College should establish procedures to ensure that its local bank provides sufficient collateral for its account balances in accordance with statute and MnSCU policy.*

Finding 11

Prior Finding Not Resolved:[44] The five colleges had expense transactions that did not comply with certain MnSCU policies and procedures.

Each college had expense transactions that did not comply with certain MnSCU policies and procedures. This indicated weaknesses in the colleges' internal controls for expenses. MnSCU has policies and procedures with specific requirements for procurement, contracts, and payments. These policies and procedures define the expectations of the MnSCU Board of Trustees and the

[42] *Minnesota Statutes* 2009, 118A.03.
[43] MnSCU Procedure 7.5.1, Part 5.
[44] Office of the Legislative Auditor, Financial Audit Division, Report 07-25, *Minnesota State Colleges and Universities*, issued September 18, 2007 (Finding 9).

Office of the Chancellor and the limits of colleges' authority for some types of transactions.

We analyzed the full population of expenses and tested hundreds of transactions. Our testing identified the following errors:

- Three colleges (Central Lakes, Pine, and Riverland) had some employees authorize purchases and payments without the proper authority. For example, Riverland obtained approval from the Office of the Chancellor for two purchases that exceeded $100,000, as required by MnSCU procedure, but did not obtain approval for subsequent increases to those purchase amounts.[45] Other examples included employees with delegated purchasing authority that approved purchases for amounts exceeding their authority and purchases made by employees without any delegated purchasing authority.

- Four colleges (Central Lakes, Inver Hills, Pine, and Ridgewater) made some purchases without obtaining multiple bids or quotations or without obtaining sealed bids when required.[46] Although Pine asserted that it had not bid two purchases because the items or services were only available from a sole source vendor, the college did not sufficiently document and justify its determination that no other vendor existed.

- All five colleges incurred obligations before encumbering funds for some purchases.[47]

- Two colleges (Central Lakes and Ridgewater) inappropriately procured some services using purchase orders instead of formally signed contracts. For example, Ridgewater procured parking lot repairs without a contract. In addition, Central Lakes increased a contract amount without formally amending the contract.

- Two colleges (Central Lakes and Inver Hills) paid vendors without validating the accuracy of payment amounts. Central Lakes paid some vendors based on informal communications instead of invoices and paid one vendor $1,000 in travel reimbursements without evidence verifying the vendor incurred those expenses. Inver Hills overpaid one vendor by

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[45] MnSCU Procedure 5.14.5, Part 2, requires approval from the Office of the Chancellor for purchases exceeding $100,000.

[46] MnSCU Procedure 5.14.5, Part 4, requires multiple bids or quotations for purchases of $10,000 or more and requires sealed bids solicited by public notice for purchases of $25,000 or more. Some colleges also had internal policies requiring multiple quotations for purchases at lower dollar amounts.

[47] MnSCU Procedures 5.14.2, Part 4; 5.14.5, Part 5; and 6.5.5, Part 6, require colleges to encumber funds before incurring obligations.

$219 after it failed to identify miscalculated amounts on four of the vendor's invoices.

- Two colleges (Central Lakes and Riverland) paid for some services without evidence that they had received the services.

- Four colleges (Central Lakes, Inver Hills, Pine, and Riverland) did not record the correct date of liability for several transactions in the accounting system. Colleges used the invoice date, invoice due date, or payment approval date rather than the date the college received the goods or services.

- Four colleges (Central Lakes, Pine, Ridgewater, and Riverland) had purchases of food, beverages, and related items for groups or for college events without advance approval to incur those special expenses.[48] Those purchases were made by college staff using purchase orders, by employees with personal funds that the colleges subsequently reimbursed, or by employees with college credit cards.

Recommendation

- *The colleges should strengthen controls to ensure compliance with MnSCU and college policies and to accurately record financial activities in the accounting system.*

Finding 12

The five colleges did not verify the accuracy of employee tuition waiver amounts.

None of the five colleges verified the accuracy of authorized employee tuition waiver amounts, which totaled about $768,000 for the period July 1, 2007, through December 31, 2009.[49] Although MnSCU's Integrated Statewide Record System contained an employee tuition waiver module that allowed colleges to electronically authorize and track employee tuition waiver requests, colleges had to manually calculate the amount of tuition and fees to waive and record these transactions in the accounts receivable module. Inver Hills inaccurately calculated and recorded five of the employee tuition waiver amounts we tested. The errors, totaling $482, occurred because the college used incorrect tuition rates, used an incorrect number of credits, or did not properly include authorized fees in its waiver calculations. Without an independent review of employee tuition waiver amounts for accuracy, these errors went undetected.

[48] MnSCU Procedure 5.20.1 requires advance approval of special expenses.
[49] MnSCU Policy 5.12, Part 2, Subpart E, allows colleges to waive tuition for employees as provided by employment contracts.

Recommendations

- *Inver Hills should correct the employee tuition waiver errors cited.*
- *The colleges should develop internal control procedures to verify the accuracy of employee tuition waiver amounts.*

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Minnesota
STATE COLLEGES
& UNIVERSITIES

September 3, 2010

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 audit of five colleges.

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. We were pleased to note in your transmittal letter that *"The five colleges in the Minnesota State Colleges and Universities (MnSCU) system included in our scope generally had adequate control over their major financial activities, such as tuition payments, employee salaries and operating expense."* The letter further notes that *"For the items tested, with certain exceptions, the individual colleges complied with finance-related MnSCU policies and legal requirements."*

We have received un-qualified opinions on the system's financial activity and that of the twelve largest college and universities since we began that effort with the financial activity of FY2002. The focus on "key significant and systemic findings" appropriately calls out areas of concern for attention by the chancellor and the college and university presidents. You have my assurance that we take these findings very seriously and will work diligently to remedy these issues.

We have evaluated all of the findings with the appropriate college staff. The colleges and Office of the Chancellor have developed the action plans, as cited in this response, to implement the necessary improvements. On behalf of the presidents and financial management staff at each of the colleges and 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.

LMK

Laura M. King
Vice Chancellor – Chief Financial Officer

c: James H. McCormick, Chancellor
Selected college presidents and chief financial officers

Minnesota State Colleges and Universities
Response to the audit of five colleges
September 2010

Finding 1. Systemic Finding: The colleges did not adequately assess their business risks or monitor the effectiveness of their internal controls.

The colleges and the Office of the Chancellor disagree with this finding. The colleges have procedures, policies and guidelines for conducting activities of their college. The colleges operate within the Policies, Procedures and Guidelines established by Minnesota State Colleges and Universities, Board of Trustees.

MnSCU certainly agrees with the value of sound internal controls and notes that the first two sentences of your conclusions found that controls were adequate over the college's major financial activities. The colleges have satisfied internal control expectations of COSO and the Statement on Auditing Standards #109 as evidenced by the results of our system-wide annual financial statement audits. To recommend additional control risk assessments without regard to the cost of such efforts is unreasonable. Accordingly, we disagree with your first finding and consider it to be misleading and not based on professional standards.

The Minnesota State Colleges and Universities have developed and executed a comprehensive financial management and internal control program. MnSCU's in-depth management of financial and compliance risk accepts that there will be an acceptable level of errors and omissions and that these errors and omissions will be identified through the intentionally overlapping audit processes, and the System's continuous improvement program. Performance is monitored and steered by the Board's Audit Committee which seeks continuous improvements through policy, procedure and training. It is a very cost effective risk management program.

Management has designed a financial assurance program with significant financial and human resource commitments. The program is grounded in Board Policy articulating standards of accountability for colleges and universities as well as the Office of the Chancellor. The Vice Chancellor – Chief Financial Officer has day to day responsibility for establishing the standards and the means of measuring compliance with the standards. This is done through the financial planning standards framework, provision of required training, and creation of monitoring and reporting methods in support of the Board's financial management standards.

Minnesota State Colleges and Universities will continue its commitment to the evaluation of its internal control processes as well as our commitment to a System continuous improvement plan within a reasonable cost benefit framework.

Finding 2. Prior Systemic Finding Not Resolved: The colleges did not design, document, or monitor detective controls to mitigate risks created by giving employees incompatible and unnecessary access to computer system functions.

The colleges and the Office of the Chancellor agree with this finding and have made substantial progress in this area. The Office of the Chancellor has rolled out a new security management *application that warns users when assigning combinations of security groups and roles that are identified as incompatible. The application allows a notation about a mitigating detective control for any security access granted that results in an incompatibility. The application also requires an annual re-certification of all system access granted at each institution.*

Since the audit, the colleges have adopted the new security management application in their administration of system security. Using this new tool, they have greatly reduced the number of unmitigated incompatible duties, eliminated unnecessary access, and have or are working on establishing detective controls to mitigate risks. The Office of the Chancellor offered several web-ex sessions on this area late in fiscal 2010 The Office of the Chancellor will continue to monitor these areas and work with campuses on their effective use of this security tool to mitigate their risk associated with incompatible duties.

Finding 3. The Office of the Chancellor has not defined a formal process to justify the payments of early retirement incentives under the Minnesota State College Faculty bargaining agreement.

The Office of the Chancellor agrees with this finding and has made substantial progress in this area. The Office of the Chancellor has compiled data for FY10 early retirement incentives. The Human Resource Division in consultation with Internal Audit is working to develop an appropriate methodology for determining cost savings to the system.

Finding 4. Prior Systemic Finding Not Resolved: The colleges did not accurately account for faculty and administrator leave benefits.

The colleges and the Office of the Chancellor agree with this finding and have made substantial progress on this issue. Numerous conversations and presentations have taken place to impress upon campuses the importance of compliance in this area. In addition, with the assistance from campus representatives earlier this calendar year the Office of the Chancellor documented the unclassified leave accounting processes and provided mandatory training to state university and college employees involved in processing unclassified leave. All campuses have committed to improve their accurate and timely maintenance of unclassified leave accounting and ensure separation payments are processed correctly.

Additionally, the Office of the Chancellor will invest in some enhancements to SCUPPS and E-timesheet systems for unclassified leave processing. While the specific changes are currently under discussion, the overall goal is to simplify and automate the process in order to eliminate duplicate entry and the dependence on manual reconciling wherever possible.

Specific to this finding we have a commitment from all five colleges that they will work efficiently to incorporate the recommended changes by June 30 or sooner.

Finding 5: Prior Systemic Finding not Resolved: The five colleges did not adequately manage their equipment and sensitive asset inventories.

The colleges and the Office of the Chancellor agree with this finding and will continue to strengthen processes for detecting errors and monitoring compliance with physical inventory results. A new object code for sensitive items was created in fiscal year 2010 to assist campuses with their tracking of these items. In addition several web-ex sessions were offered to all campuses in April 2010 with equipment and inventory reconciliation as one of the topics.

Specific to this finding we have a commitment from all five colleges that they will work efficiently to incorporate the recommended changes by June 30 or sooner.

Finding 6. Prior Systemic Finding Not Resolved: The five colleges did not sufficiently control employees' use of college-issued credit cards.

The colleges and the Office of the Chancellor agree with this finding. System Procedure 7.3.3 Credit Cards, is currently being reviewed by the Office of the Chancellor. Proposed changes address the use of credit cards for gasoline and student activities. The revised procedure should help eliminate some of these findings in the future and help clarify the intended use of credit cards. These changes will be completed by June 2011. In addition the five colleges have already made changes to their processes such as putting blocks on restricted merchant categories and implementing additional training or internal procedures as deemed appropriate.

Findings 7-12. Colleges had control weaknesses and noncompliance with requirements of employee compensation, vendor procurements and payments and employee expense reimbursements.

The colleges agree with these findings and have designated a responsible party to insure that the corrective actions are in place by June 30, 2011. In some cases the necessary steps have already been taken and we have a commitment from all five colleges that they will work diligently to incorporate the recommended changes in a timely manner. The colleges have shared with the Office of the Chancellor a list of responsible parties and estimated completion dates for findings affecting them.