Minnesota State Colleges and Universities Transition of Technical Colleges into State Government

Selected Scope Financial Audit
For the Year Ended June 30, 1996

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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August 1996

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Financial Audit Division Office of the Legislative Auditor State of Minnesota

96-35

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STATE OF MINNESOTA
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Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Judith Eaton, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

We have conducted an audit of selected programs and activities of the Minnesota State Colleges and Universities System as further explained in Chapter 1. We emphasize that this has not been a complete audit of all Minnesota State Colleges and Universities (MnSCU) programs and activities. Our audit scope focused on MnSCU's new business systems, mainly the accounting and personnel/payroll functions, with particular emphasis on the technical colleges. We also reviewed selected financial activities related to the merger of the technical colleges into state government. The following summary highlights the specific audit objectives and our conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. These standards also require that we design the audit to provide reasonable assurance that the Minnesota State Colleges and Universities complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of MnSCU is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws and regulations.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Colleges and Universities System. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 30, 1996.

We thank the staff of the Minnesota State Colleges and Universities System for their cooperation during this period.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 21, 1996

Report Signed On: August 26, 1996

SUMMARY

State of Minnesota
Office of the Legislative Auditor
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Minnesota State Colleges and Universities
Transition of Technical Colleges into State Government

Selected Scope Financial Audit
For the Year Ended June 30, 1996

Public Release Date: August 30, 1996 No. 96-35

Agency Background

The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. The new MnSCU system combined two state-level higher education systems, state universities and community colleges, that had previously existed as independent systems. It also incorporated a series of technical colleges into state government. The technical colleges had formerly existed as either independent units of local government or had been affiliated with local school districts.

The merger of Minnesota higher education facilities was a tremendous challenge and took several years to plan and implement. The Higher Education Board, created by the 1991 Legislature, was responsible for the initial planning of the merger. The 1995 Legislature created the current MnSCU organizational structure and affirmed that the merger would occur. A 15 member board of trustees was appointed by the Governor on July 1, 1995, to oversee the activities of MnSCU. Dr. Judith Eaton was appointed as the first MnSCU chancellor effective August 15, 1995.

Selected Audit Areas and Conclusions

Our audit scope focused on the development of MnSCU's new business systems and the transition of the technical colleges into the state's system. We visited 19 technical colleges and consolidated campuses.

We found that, after its first year of operations, MnSCU continues to face many fundamental financial management problems. It has not fully implemented its business systems and cannot yet provide accurate and reliable financial information. MnSCU does not have a uniform payroll process for its campuses. Most colleges had positive fund balances; some technical colleges joined the system with deficit balances, however. Furthermore, some technical colleges did not properly record the final transfer of fund balances in the statewide accounting system (MAPS). While MnSCU had an adequate system for transferring land and buildings to the state, the technical colleges did not have an adequate inventory system for equipment.

MnSCU properly classified employees and established payrates for its employees in accordance with the transition laws and employee bargaining agreements. However, because of the cumbersome payroll system used for the technical colleges, occasional errors occurred in processing employees' payroll checks. On several occasions, some employees did not receive payroll checks on a timely basis. Some colleges also had an inadequate segregation of duties in the personnel/payroll function.

Most technical colleges did not have adequate controls over the collecting, depositing, recording, and reconciling tuition and fee revenue. We found various control weaknesses in the tuition and fee revenue accounting system. In addition, we found colleges granting tuition deferments without explicit authority.

The technical colleges have adequate internal controls to reasonably ensure compliance with federal student financial aid laws and regulations. However, some aspects of internal controls could be improved. We also found some instances of noncompliance with federal guidelines.

MnSCU Chancellor, Dr. Judith Eaton, has responded to the audit report and acknowledged the internal control weaknesses shown in the audit report. MnSCU is developing a plan to correct each problem. In addition, MnSCU plans to work with the presidents of all institutions to stress the importance of financial controls and methods of developing effective control systems.

Contact the Financial Audit Division for additional information.
296-1235

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Exit Conference

We discussed the issues in this report with the following staff of the Minnesota State Colleges and Universities System on August 5, 1996:

Dr. Judith Eaton	Chancellor
Tom Triplett	Interim Vice Chancellor
Joyce Wood	Vice Chancellor, Personnel
John Kaul	Deputy to Chancellor
Gerry Rushenberg	Associate Vice Chancellor
Al Finlayson	Audit Director
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Chapter 1. Introduction

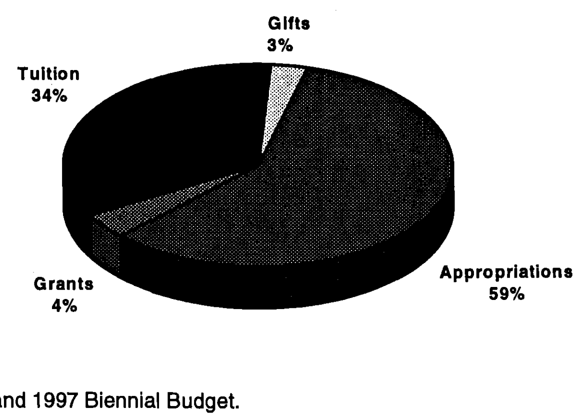
The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. The new MnSCU system combined two state-level higher education systems, state universities and community colleges, that had previously existed as independent systems. It also incorporated a series of technical colleges into state government. The technical colleges had formerly existed as either independent units of local government or had been affiliated with local school districts.

The merger of Minnesota higher education facilities was a tremendous challenge and took several years to plan and implement. The 1991 Legislature created the Higher Education Board (HEB) to plan and administer the merger that was scheduled for implementation on July 1, 1995. The board consisted of 16 members that were appointed by the Governor. The Legislature authorized the board to hire a chancellor on an interim basis for the period ending June 30, 1995. Dr. Jay Noren was appointed by the Governor as the interim chancellor on March 15, 1993.

HEB's plan to merge the facilities faced various challenges in the 1992, 1993 and 1994 legislative sessions. Legislation to repeal the merger was introduced, but failed to pass out of committee. Finally, the 1995 Legislature created the current MnSCU organizational structure and affirmed that the merger would occur. A 15 member board of trustees was appointed by the Governor on July 1, 1995, to oversee the activities of MnSCU. Dr. Judith Eaton was appointed as the first MnSCU chancellor effective August 15, 1995.

MnSCU's Biennial Budget for fiscal year 1996 and 1997 shows that the main funding sources include state appropriations, student tuition and fee revenue, federal grants, and gifts. MnSCU's operating budget is about $800 million annually. Figure 1-1 presents the resources used for operating the central office and the campuses' activities.

Figure 1-1
MnSCU Funding by Source



Source: Fiscal years 1996 and 1997 Biennial Budget.

Minnesota State Colleges and Universities System
Transition of Technical Colleges into State Government

On July 1, 1995, MnSCU merged the 8 state universities, 21 community colleges, and 34 technical colleges into one common system. Several community and technical colleges have since merged into consolidated colleges. Further consolidations are planned for the future.

This audit focused mainly on MnSCU's new business systems and the transition of the technical colleges into the state's financial structure. The technical colleges administer about $320 million annually which represents 40 percent of the total MnSCU budget. The main financial activities at the technical colleges are tuition, employee payroll, and federal student financial aid.

Table 1-1 shows the organizational structure of the MnSCU campuses as of March 1996 when we were conducting our fieldwork at the technical colleges. We reviewed selected financial activities at the technical colleges and consolidated colleges highlighted in the table. We limited our review at the consolidated colleges mainly to the activities of the technical colleges. South Central and Riverland Technical Colleges were in the process of reorganization and consolidation during our fieldwork; however, we only reviewed the technical college activities. MnSCU continued to consolidate campuses from March to July 1996. The most current organizational structure showing the location of the campuses is presented in Figure 1-2.

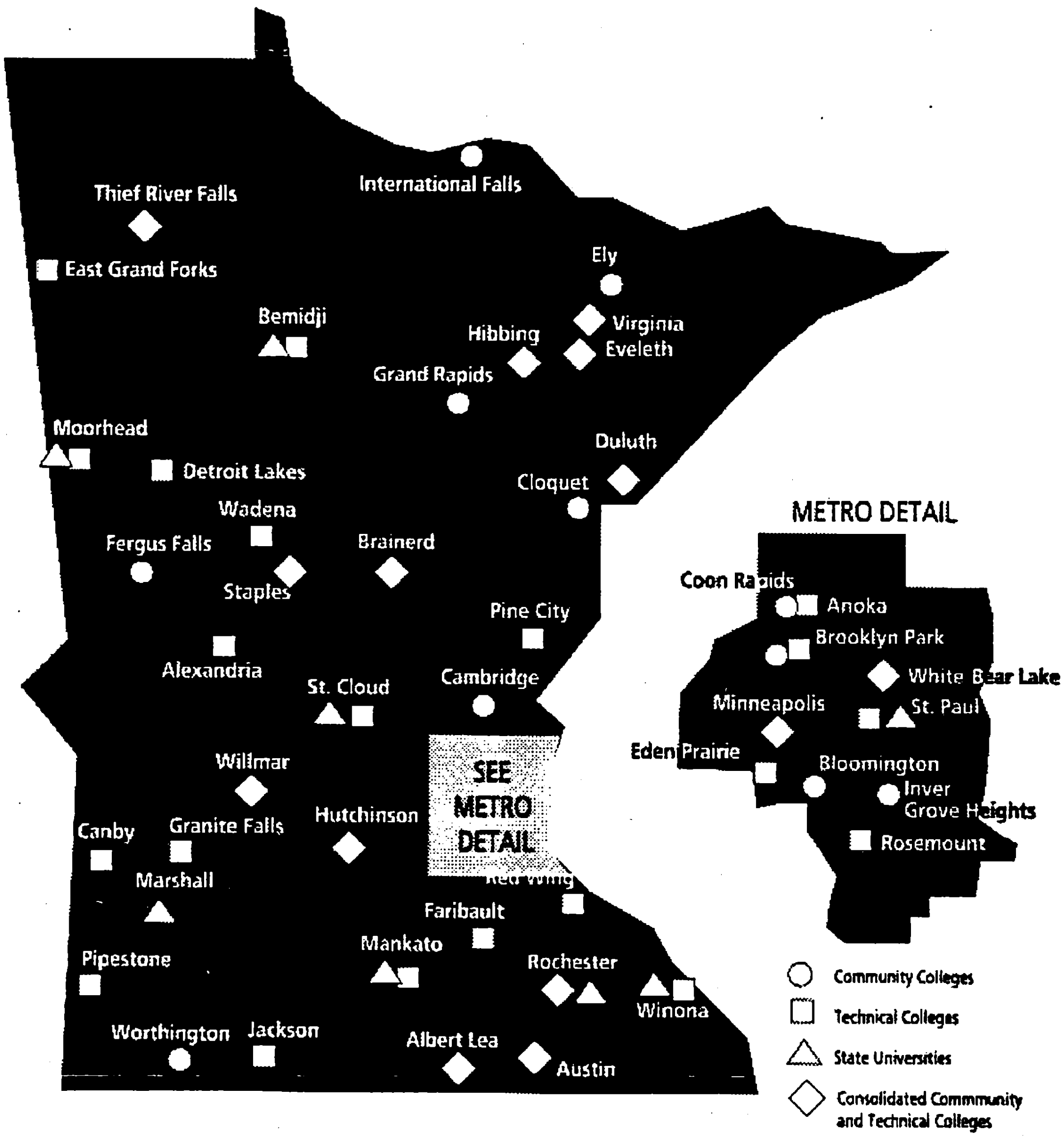
Table 1-1
Minnesota State Colleges and Universities Organizational Structure as of March 1996

Technical Colleges	Community Colleges	State Universities
Alexandria	Anoka-Ramsey	Bemidji State
Anoka-Hennepin at Anoka	Austin	Mankato State
Anoka-Hennepin at Brooklyn Park	Cambridge	Metropolitan State
Dakota County *	Fergus Falls	Moorhead State
Hennepin	Fond du Lac	St. Cloud State
Hutchinson-Wilmar at Wilmar	Hibbing	Southwest State
Hutchinson-Wilmar at Hutchinson	Inver Hills	Winona State
Minnesota Riverland at Austin *	Itasca	Akita Campus (Japan)
Minnesota Riverland at Rochester *	Mesabi	
Minnesota Riverland at Faribault *	Normandale	
Northwest at East Grand Forks *	North Hennepin	
Northwest at Moorhead *	Rainy River	
Northwest at Wadena *	Rochester	
Northwest at Bemidji *	Vermilion	
Northwest at Detroit Lakes *	Wilmar	
Pine *	Worthington	
Range at Hibbing		
Range at Eveleth		
Red Wing/Winona at Red Wing		
Red Wing/Winona at Winona	**Consolidated Colleges**	
St. Cloud *		
St. Paul *		
South Central at Mankato *		
South Central at Albert Lea *		
Southwestern at Canby	**Central Lakes College** *	
Southwestern at Granite Falls	**Century Community and Technical** *	
Southwestern at Jackson	**Lake Superior College** *	
Southwestern at Pipestone	**Northland Community and Technical** *	
	Minneapolis Community and Technical*	

Note: * Selected technical colleges reviewed.

Source: Auditor prepared.

Figure 1-2
Minnesota State Colleges and Universities
Organizational Structure as of July 1996



Source: MnSCU Central Office.

Minnesota State Colleges and Universities System
Transition of Technical Colleges into State Government

Our audit scope and objectives for the Minnesota State Colleges and Universities System were as follows:

- Review the new MnSCU accounting and personnel systems, but with particular emphasis on the technical colleges. Our primary objective was to determine if the new MnSCU business systems provided complete, accurate and reliable financial information to properly administer the campuses activities. The results of this review are presented in **Chapter 2--Financial Management.**

- Review the transfer of technical college assets to the state on July 1, 1995. Our main objective was to determine if cash balances, land and buildings, and personal property were properly transferred to the state. The results of this review are presented in **Chapter 3--Transfer of Technical College Assets to the State.**

- Review the technical college personnel/payroll function during the transition phase. Our main objective was to determine that the transfer of personnel into the state's system complied with the laws and the respective employee bargaining agreements. The results of this review are discussed in **Chapter 4--Technical College Personnel/Payroll.**

- Review the technical college tuition and fee revenue process. The results of this review are discussed in **Chapter 5--Technical College Tuition and Fee Revenue.**

- Review the internal controls over federal student financial aid. Our main objective was to gain an understanding of the internal controls over the administration of student financial aid for the fiscal year 1996 Statewide Single Audit. The results of this review are presented in **Chapter 6--Technical College Student Financial Aid.**

We have developed audit findings and recommendations in each of these chapters to assist MnSCU and the colleges in improving financial management.

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Chapter 2. Financial Management of MnSCU Campuses

Chapter Conclusions

The Minnesota State Colleges and Universities System (MnSCU) has not fully implemented its business systems and cannot yet provide accurate and reliable financial information. MnSCU's accounting and personnel systems became operational in fiscal year 1996, and campuses are now using these systems to varying degrees. MnSCU does not have a uniform computerized payroll process for its campuses. The payroll process used for the technical colleges was cumbersome, which increased the risk of errors. On several occasions some state employees at the technical colleges did not receive their payroll checks on a timely basis.

The MnSCU accounting system interface with the new statewide accounting system (MAPS) was also implemented in fiscal year 1996. However, in the later part of fiscal year 1996, implementation problems still existed limiting the completeness and reliability of the financial information on these systems. The MnSCU system office and certain campuses were not entering total financial information on the MnSCU or MAPS systems.

MnSCU needs to clarify its statutory authority for the types of funds it can administer in local bank accounts outside of the State Treasury. On July 1, 1995, with the completion of the merger of the technical colleges, MnSCU assumed the assets and liabilities of the colleges. Although most colleges had positive fund balances at June 30, 1995, some colleges had deficit balances. MnSCU was working with these colleges to recover from the deficits.

MnSCU's financial management structure includes various business systems used to administer the financial activities of its campuses. Full implementation of the accounting and personnel systems is critical to ensure the integrity of the financial transactions and efficiency of operations. MnSCU processes about 1.7 million transactions annually on its business systems. The completeness, accuracy, and reliability of its business systems is critical to the proper financial management of a large and complex structure. The budget process of estimating resources and expenditures is an important component of a sound financial management system. Finally, a system to monitor the financial activity of the campuses is critical to ensure management that resources are sufficient to cover the costs of operations. This chapter discusses various components of MnSCU's financial management system and highlights areas that need improvement. We acknowledge the many challenges that MnSCU faced because of the merger and the development of new business systems, and we realize that time will be needed to implement our recommendations.

MnSCU management faced several challenges in merging the state universities, community colleges and technical colleges into one educational system. It decided to develop centralized business systems to process financial transactions for its campuses. MnSCU developed uniform computerized systems for the accounting, personnel, and procurement functions. These new MnSCU systems had to interface with the new Department of Finance accounting and payroll systems.

MnSCU merged different environments and organizational structures for its diverse campuses into a common system. The three educational systems were unique in many ways. The technical colleges operated under distinct management styles, with differing levels of responsibility between the campuses and the former system offices. The state university and community college systems were part of the state prior to the merger, while the technical colleges were either associated with school districts or operated as independent entities. Some technical colleges were not only merging into MnSCU, but were also further consolidating with other technical colleges or community colleges (consolidated colleges). The merger and new accounting systems compounded the difficulties faced by the technical colleges and for the system as a whole.

The merger required the training of many employees at both the campus level and the system office. Many of the employees at the technical colleges were not familiar with state regulations or with the new MnSCU or state accounting systems. The merger was further complicated by former administrative employees at some of the technical colleges electing to remain with the local school districts. Many technical colleges had to hire new administrative employees to operate their financial activities.

Important challenges remain for MnSCU to improve the effectiveness of its financial management. MnSCU needs to ensure the completeness and reliability of its financial information. In addition, MnSCU needs to ensure that its business systems properly interface with the Department of Finance's systems. Further training of staff in these business systems is also critical to ensure the reliability and proper interpretation of the financial information.

MnSCU needs to clarify its statutory authority for the administration of funds outside the State Treasury. The authority to administer federal student financial aid, scholarships, and grants outside the control of the Department of Finance was abolished during the 1995 legislative session. MnSCU also needs to continue monitoring resources and expenditures of individual campuses to resolve potential deficit spending problems.

Development of Business Systems

MnSCU made the decision to design and develop new financial management systems to operate and administer its campus financial activities. A computerized accounting system, MnSCU accounting, is the general ledger system used by the campuses. The design of the accounting system was discussed as early as 1992 by staff of the former system offices. A MnSCU committee met in the summer of 1993 to set up the accounting structure for the system and finalized a chart of accounts by December 1993. Early in 1994, MnSCU staff discussed the use of its own business systems with the Department of Finance. MnSCU and Finance had several meetings to discuss systems development and the interface with MAPS. Both parties developed written agreements to document the plans and timeframes for the various development stages.

Systems development for MnSCU accounting started in early 1994 and work on the databases began in April 1995. System designers faced significant time constraints and technical challenges to develop and implement the accounting system by July 1, 1995.

The State Colleges and Universities Personnel/Payroll System (SCUPPS) was developed during this same timeframe and became operational on July 1, 1995. SCUPPS is an enhanced version of the prior State University Personnel System (SUPS). SUPS was developed in 1991 and was previously used by state universities to budget, forecast, and control payroll costs. MnSCU modified and enhanced SUPS during 1994 and, in preparation of the merger, developed SCUPPS to fit the additional needs of the technical and community colleges. For faculty assignments, the system provides a measure of compensated teaching credit load for each quarter, and allows informed workload and staffing decisions.

MnSCU is also designing new systems to support other business functions, such as accounts receivable, procurement, and financial aid. However, these systems are still in the design phase, and were not reviewed as part of this audit.

Table 2-1 describes the new MnSCU and State of Minnesota computerized business systems.

Table 2-1
Major MnSCU and State of Minnesota Computerized Business Systems

MnSCU Systems:	
MnSCU Accounting	MnSCU's new general ledger system. This system provides financial information for planning, analysis, and decision making. It also will provide information for external financial reporting.
State Colleges-Universities Personnel/Payroll System (SCUPPS)	MnSCU's personnel system. This system stores employee demographic, appointment, seniority, and salary information. SCUPPS also computes the gross pay for each employee. However, it does not process the biweekly payroll or generate checks. Currently, the Personnel/Payroll System (PPS) performs these functions for MnSCU. MnSCU plans to convert these payroll processing functions to SEMA4, the state's new personnel/payroll system.
State of Minnesota Centralized Systems:	
Minnesota Accounting and Procurement System (MAPS)	The State of Minnesota's new accounting and procurement system. This system supports all procurement and purchasing functions for state agencies. It also provides general ledger financial information for planning, analysis, decision making, and external financial reporting.
State Employee Management System (SEMA4)	The state's new personnel/payroll system. This system stores employee demographic, appointment, seniority, and salary information. It also computes and processes the biweekly payroll and generates checks. With the exception of MnSCU, all state agencies currently use this system. In May 1996 MnSCU began pilot projects to test SEMA4 for some of its colleges.
Personnel /Payroll System (PPS)	The state's previous payroll system. All state agencies, with the exception of MnSCU, converted to SEMA4 during fiscal year 1996.

Source: Auditor prepared.

Audit Objectives and Methodology

The primary objective of our review of MnSCU's financial management structure was to answer the following questions:

- Do the new MnSCU accounting and personnel (SCUPPS) systems provide management and the campuses with complete and reliable financial information?

- Did the technical colleges properly reconcile their financial activities to the MnSCU and the Department of Finance business systems?

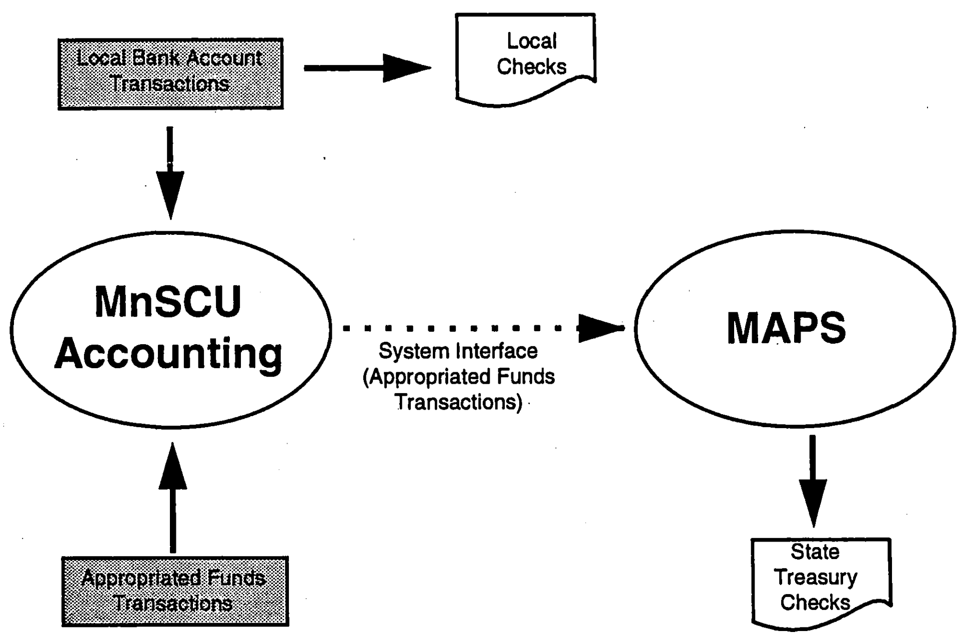
- Did the technical colleges properly establish accounts for state and local financial activities in accordance with state law?

To answer these questions, we interviewed MnSCU system designers, managers, and accounting employees. We gathered and analyzed financial information from the new systems, to the extent possible. We obtained other documentation supporting the implementation status of the new systems. Finally, we reviewed the account structure and the reconciliation procedures at selected technical colleges.

Current Systems Development Implementation Issues

MnSCU receives the majority of its funding for operations from General Fund appropriations. The statewide accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. Campuses use MnSCU accounting to initiate transactions which involve appropriated funds. MnSCU accounting feeds these transactions to MAPS through a system interface. MAPS generates State Treasury checks for state appropriated expenses. Campuses also administer funds in local bank accounts separate from the State Treasury. MnSCU requires the recording of local activities on MnSCU accounting. However, local financial activities are not fully recorded on MnSCU accounting or MAPS. The ultimate plan was to record summary information for local account activities by campus on MAPS. Figure 2-1 illustrates the planned process for the campuses to enter local transactions in both MnSCU accounting and MAPS. MnSCU accounting and MAPS would eventually store much of the same financial information although at different levels of detail.

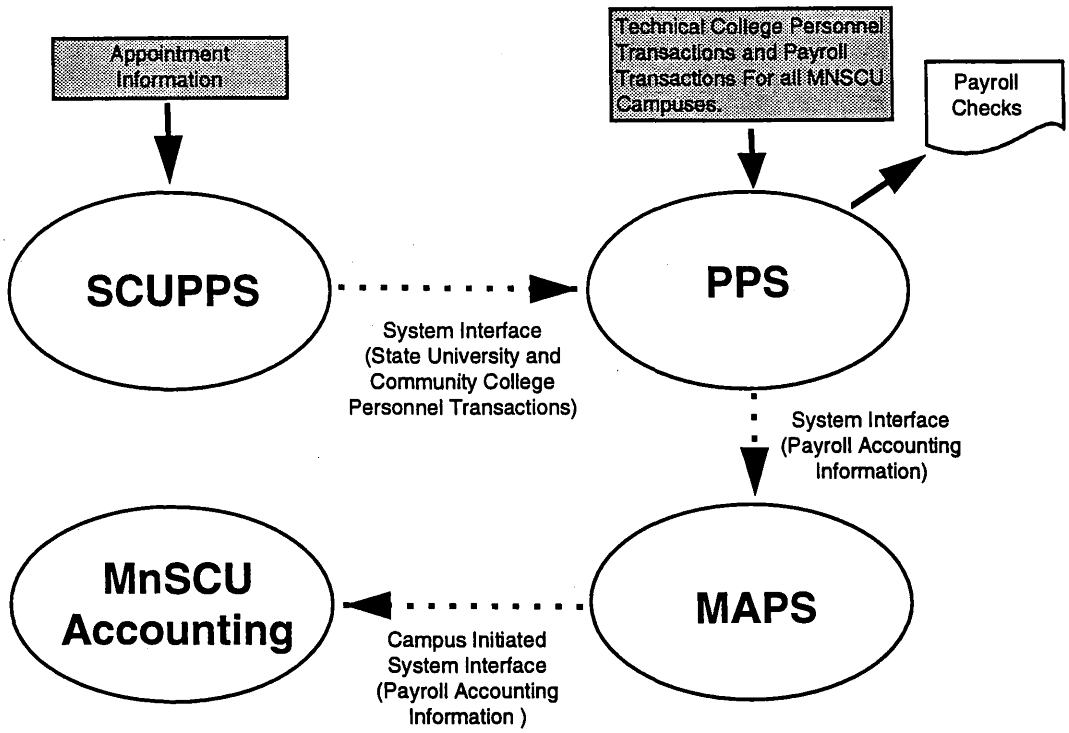
Figure 2-1
The MnSCU Accounting and MAPS System Interface



Source: Auditor prepared from discussions with MnSCU staff.

SCUPPS and the state's former payroll system, PPS, also store large amounts of similar data. MnSCU pays most faculty members a fixed amount for each scholastic quarter. SCUPPS takes these fixed appointment amounts and converts them into biweekly salaries. PPS then uses these salary amounts to compute and process the payroll. A system interface facilitates this process by moving some personnel data from SCUPPS to MAPS. However, this interface was not working for technical college data. As a result, the MnSCU system office must manually enter all payroll and personnel data in PPS. This process is cumbersome and increases the risk of incorrect payments to employees. PPS generates payroll checks and feeds the accounting data to MAPS. Campuses then must initiate a separate computerized process to post their payroll expenditures to MnSCU accounting. Figure 2-2 illustrates the major transaction flows between SCUPPS, PPS, MAPS, and MnSCU accounting.

Figure 2-2
The Relationship Between SCUPPS, PPS, MAPS, and MnSCU Accounting
As of March 1996



Note: See finding 1. This interface was not used for the technical colleges.

Source: Auditor prepared from discussions with MnSCU staff.

MnSCU system designers were still facing significant technical challenges at the time of our audit. Most significantly, the planned interface between SCUPPS and the new statewide personnel/payroll system, SEMA4, was incomplete. As a result, the state has had to operate and maintain both SEMA4 and PPS. Several errors in the payroll processing occurred during the merger of the technical colleges because of the cumbersome process. Since January 1996, MnSCU is the only state agency that is still using PPS. In May 1996, MnSCU system designers began a pilot project to test a new interface between SCUPPS and SEMA4.

MnSCU was also facing user training and data access problems at the time of our audit. The MnSCU accounting system data for its campuses was dispersed over eight regional computer centers. Individual campuses are able to retrieve data from the MnSCU accounting system; however, it is difficult to assemble statewide information. Initial plans included the development of a data warehouse to extract systemwide information for management's needs. However, no progress has been made on the development of the warehouse. Accordingly, it is currently very difficult to compile financial information for the MnSCU system as a whole. Finally, many of the technical college campuses were not properly entering or reconciling their financial activity on the accounting systems. Finding 1 discusses our concerns in more detail related to the state universities, community colleges, technical colleges, and consolidated colleges.

Conclusions

MnSCU's business systems do not provide management with timely and accurate financial information to support decision making. The data underlying MnSCU accounting was not complete as of June 1996 because some campuses were not entering all of their financial activities in the system. The data also may not be reliable because some campuses were not performing reconciliations to ensure the accuracy of financial information on the systems. The payroll method used for the technical colleges was causing occasional errors in processing employee paychecks. Finally, it is very difficult to compile financial data for the MnSCU system as a whole without the assistance of technical experts.

1. MnSCU has not fully implemented its business systems to ensure the integrity of its transactions and to provide complete financial information.

MnSCU has not fully implemented its accounting and personnel systems to properly process and record its transactions. The interface of MnSCU's systems with the new statewide accounting system (MAPS) and payroll system (SEMA4) remained incomplete as of June 1996. We believe that it is critical for MnSCU to complete the implementation of its business systems and the statewide system interfaces. We are specifically concerned with the payroll process for the technical colleges. The payroll process for the technical colleges was cumbersome with manual input of data by central office staff. This type of system does not provide sufficient edits to readily detect errors in the processing of payroll checks to technical college employees. During our review of the technical colleges, we found that on several occasions some employees did not receive their payroll checks on a timely basis. We found evidence that payroll errors have occurred throughout fiscal year 1996. MnSCU should correct the deficiencies with the technical college payroll process to ensure that state employees receive their payroll checks timely.

The state universities, community colleges, and technical and consolidated colleges are not properly recording complete financial information on the new MnSCU accounting system. As of March 31, 1996, only 6 of 63 campuses had posted payroll costs to the accounting system. Payroll costs represent a significant omission because it is the largest operating expense for the colleges. We reviewed twelve technical colleges and found that only one college, Northwest Technical College, had posted fiscal year 1996 payroll expenses to MnSCU accounting. As of May 1996, the other colleges payroll postings were incomplete. Some posted only one or a limited number of pay periods. In addition, some colleges did not record either faculty or part-time employees.

MnSCU accounting for local bank account financial activities was incomplete. Most of the community colleges and certain other campuses did not record local financial activities in MnSCU accounting. The interface of MnSCU accounting for local funds with MAPS was incomplete as of June 1996. Eventually, the system office plans to record summary information on locally administered accounts in MAPS. Local financial activities refer to funds that are received and disbursed through local bank accounts, rather than the State Treasury. Financial aid and student housing funds are typically the largest types of local financial activities.

Minnesota State Colleges and Universities System
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The financial data in the MnSCU accounting system may not be reliable. Eleven of the twelve technical colleges reviewed were either not reconciling MnSCU accounting to MAPS or were not reconciling timely. This is an important control to detect transactions that did not interface properly.

Most technical colleges reviewed were not reconciling payroll activities between PPS and SCUPPS. In addition, to expedite payroll processing, MnSCU directed the colleges to charge payroll to the General Fund regardless of the proper funding source. MnSCU and the colleges have not corrected the funding sources as of June 1996.

MnSCU programmers developed a computerized edit report to compare payroll data between PPS and SCUPPS; however, many campuses are not using this report to isolate discrepancies. For example, Northwest Technical College is reviewing current pay period error reports while other colleges are just starting their reviews. Minneapolis Technical College was working to set up the data on SCUPPS before it started reviewing error reports. Undetected payroll errors eventually flow into MnSCU accounting.

Finally, it is currently very difficult to gather financial information for the MnSCU system as a whole. Each campus has its own accounting and payroll databases, located at one of eight regional computer centers. However, there is no central data repository for the system as a whole. MnSCU technical specialists currently write special computer programs that query and compile financial data from the campuses. This approach will not meet the full needs of decision makers. Recognizing this dilemma, MnSCU eventually plans to store systemwide financial data in one central information warehouse. Financial managers will then be able to access this financial data.

Recommendations

- *MnSCU should complete the implementation of its business systems and interfaces with the statewide systems. MnSCU should correct the payroll process for the technical colleges to ensure that state employees receive their checks on a timely basis.*

- *MnSCU should ensure that campuses enter all financial activity in MnSCU accounting.*

- *MnSCU should ensure that campuses perform payroll and accounting reconciliations.*

Technical Colleges Financial Structure and Budget Deficits

MnSCU funds administered in the State Treasury are subject to the centralized controls of the Department of Finance. These funds include state appropriations, tuition and fees, and federal grants and are used mainly for general operating activities and capital projects. Campuses also administer funds in local bank accounts mainly for student financial aid and other student activities. State law describes the types of funds subject to the control of the Department of Finance and safeguarding in the State Treasury. MnSCU is authorized to administer certain funds in local bank accounts that are not subject to the control of Finance. The authority for campuses to administer federal student aid, scholarships, and grants in local bank accounts was repealed, effective for July 1995; yet, campuses have continued to administer those funds in local accounts. This issue is discussed further in finding 2.

We reviewed the financial structure of selected technical colleges and the fund balances transferred into the state on July 1, 1995. The technical colleges had annual audits of their financial statements and federal programs (Single Audits) prior to the merger. Several of the technical colleges were administratively independent and had separate audited financial statements. However, many of the colleges were affiliated with school districts. Generally, school districts administered the financial activities for these colleges and the audited financial statements were combined into one report. However, we were able to distinguish between the school districts' and the technical colleges' financial activities. Table 2-2 shows the fund balances for selected technical colleges at June 30, 1995, from the audited financial statements. Governmental funds are used to account for most of the general operating activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition of construction of general fixed assets (capital projects), and the servicing of general long-term debt. Proprietary funds include food service, bookstore, and other auxiliary enterprises. Fiduciary funds include mainly state and federal financial aid, grants, and scholarships. Fiduciary funds also include private gifts and endowments specified for designated purposes.

Table 2-2
Selected Technical Colleges Fund Balances
Fiscal Year 1995

College	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Independent Colleges:				
Central Lakes	**($277,791)**	**($65,422)**	$31,994	**($311,219)**
Northwest	945,812	471,626	34,867	1,452,305
Riverland	**(128,240)**	333,758	58,151	263,669
Colleges Affiliated with School Districts Before Merger:				
Century Technical	1,182,042	**(31,720)**	139,741	1,290,063
Dakota	1,241,055	401,082	203,800	1,845,937
Lake Superior	**($ 77,758)**	$ 313,586	$ 10,344	$ 246,172
Minneapolis	1,276,980	403,871	776,802	2,457,653
Pine	224,795	0	**(14,066)**	210,729
St. Cloud	1,293,094	198,748	**(8,880)**	1,482,962
St. Paul	2,913,208	273,031	118,158	3,304,397
South Central	**(910,160)**	240,008	73,895	**(596,257)**
Total	**$7,683,037**	**$2,538,568**	**$1,424,806**	**$11,646,411**

Source: Auditors' summary of information shown in the Technical Colleges' Fiscal Year 1995 Audited Financial Statements. The auditors made classification adjustments to the audited statements within fund types for consistency of presentation. General fixed assets and general long-term debt are not included in this table.

As shown in the table, some of the colleges had deficit fund balances at the point of merger with the state. MnSCU has worked with these colleges to resolve funding problems. Central Lakes and South Central came into the state with an accumulative deficit fund balance as reported on the fiscal year 1995 audited financial statements. Table 2-2 shows that Central Lakes had a deficit fund balance of $311,219 and South Central $596,257. Riverland and Lake Superior had deficit balances in their Governmental Funds of $128,240 and $77,758, respectively. Minneapolis Community College, which is merging with the Minneapolis Technical College, had a deficit balance reported in our fiscal year 1995 audit. Other technical colleges including Century Technical, Pine, and St. Cloud had deficits in some funds.

MnSCU management has established plans for these colleges to recover from deficits. The plans include advance allocations of fiscal year 1996 appropriations, loans from other sources, and extensive expenditure reductions. In the future, MnSCU management and the colleges need accurate and reliable financial information to detect any potential problem areas and to adjust financial activities to avoid deficit spending. The individual colleges have to be diligent in their budget reviews. The colleges should complete an analysis of anticipated revenues and expenditures on a routine basis. Plans should be developed early in the process to correct potential deficits.

2. MnSCU's statutory authority to administer state and federal funds outside the State Treasury is unclear.

MnSCU administers certain funds in local bank accounts without proper statutory authority. MnSCU believes this authority was inadvertently repealed by the 1995 Legislature. Thus, it has continued to deposit federal funds and scholarship monies in local accounts without the proper authority. Since these funds are not deposited in the State Treasury, the transactions are not subject to the centralized controls of the Department of Finance.

Current state law requires that all receipts, including federal funds, are subject to the controls of the Department of Finance. An exception to the law is the authority to administer student activity fees and auxiliary enterprises in local bank accounts. Laws of Minnesota 1995, Chapter 212, Art. 4, Sections 48 and 49 revised the types of resources that MnSCU is required to administer in the State Treasury. Prior to the merger, community colleges and universities were allowed to administer federal financial aid, grants and scholarships in local bank accounts. However, this statute was abolished in the 1995 session. The authority to continue administering these financial activities outside the State Treasury is questionable.

Minn. Stat. Section 136F.71 (1995 Laws, Chapter 212, Art. 4, Section 48) provides:

> All receipts of every kind, nature, and description, including student tuition and fees, all federal receipt, aids, contribution, and reimbursements, but not including receipts attributable to state colleges and universities activity funds, in all the state colleges and universities are appropriated to the board, but are subject to the budgetary control to be exercised by the commissioner of finance. The balance in these funds shall not cancel on June 30, but shall be available in the next fiscal year.

Minn. Stat. Section 136F.72 (1995 Laws, Chapter 212, Art. 4, Section 49) further provides:

> The board may establish at each state college and university a fund to be know as the activity fund. The purpose of these funds shall be to provide for the administration of state college and university activities designed for student recreational, social, welfare, and educational pursuits supplemental to the regular curricula offerings. The activity funds shall encompass accounts for student activities, student health services authorized college and university agencies, authorized auxiliary enterprises, student loans, gifts and endowments, and other accounts as the board may prescribe.

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Minn. Stat. Section 136.44, which was abolished in the 1995 session, provided for the acceptance of federal grants and the use of these grants. This section governed the use of federal grants for the purpose of student scholarships, grants and loans. The former statute authorized the deposit of federal funds for student financial aid into the activity fund. Minn. Stat. Section 136.11 further established the use of activity funds including the authorization for colleges to administer these funds outside the State Treasury. Minn. Stat. Sections 136F.70 to 166.72 were created in the 1995 legislative session to administer funds at the campuses. Minn. Stat. Sections 136.11 and 136.44 were abolished during the session. Since the merger, MnSCU does not have statutory authority to deposit state or federal funds outside the State Treasury.

Recommendation

- *MnSCU should seek clarification of its legal authority to maintain state and federal student aid, scholarships and grants outside the State Treasury. If authority is not obtained, these funds must be deposited in the State Treasury.*

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Chapter 3. Transfer of Technical College Assets to the State

Chapter Conclusions

Technical colleges did not properly record the final transfer of fund balances in the statewide accounting system (MAPS). Of the eleven colleges reviewed, we could not resolve significant negative variances for Lake Superior College and St. Paul Technical College. These colleges were affiliated with school districts before the merger and did not maintain sufficient records to document the final disposition of the fund balances. We found that Minneapolis, Northwest, and St. Paul Technical Colleges did not properly deposit certain funds in the State Treasury. St. Cloud and St. Paul Technical Colleges also withheld state funds and purchased investments. Finally, some technical colleges did not obtain sufficient collateral for deposits held in local bank accounts.

MnSCU has essentially completed the process of transferring buildings and land from the technical colleges to the state. It is in the process of resolving the ownership issues related to a few properties. Technical colleges have not developed an adequate inventory system for equipment and other assets. Therefore, we could not determine if the technical colleges properly transferred equipment to the state.

Minnesota Laws of 1994, Chap. 532, Art. 5, Sec. 9, Subd. 1 authorized the transfer of real property, personal property, improvements and attachments related to the technical colleges to the state. Cash and investments, equipment, facilities, and land were components of the assets transferred into the state.

Cash and Investments

The technical colleges recorded the transfer of cash totaling $12.5 million to accounts in the State Treasury as of March 1996. Approximately $8.4 million related to the colleges that we selected for review. We found that the technical colleges did not properly record the final fund balances on MAPS. Some colleges did not properly deposit certain funds in the State Treasury. MnSCU delegated the responsibility to the colleges of transferring the fund balances to the state. MnSCU system office did not confirm the propriety of the funds transferred from the colleges to the amounts deposited in the State Treasury and recorded in MAPS.

MnSCU and the Department of Finance provided guidance to the colleges on the types of funds to transfer to the State Treasury. The guidance was based on the types of funds previously deposited in the State Treasury by the state universities and community colleges. The Governmental Funds of the technical colleges included the financial activities historically deposited in the State Treasury by the other colleges. MnSCU instructed the colleges to liquidate the June 30, 1995 receivables and payables and transfer the remaining fund balance to the State Treasury. Colleges transferred funds from July 1995 to March 1996. However, we found that the technical college balances recorded in MAPS varied significantly from the Governmental Fund balances shown on their fiscal year 1995 audited financial statements.

The risks associated with the transfers of fund balances were higher for those colleges that were part of school districts in fiscal year 1995. Prior to fiscal year 1996, the school districts were responsible for the accounting and reporting of the financial activity for many of the technical colleges. The audited financial reports for these districts included elementary, secondary, and post secondary schools. The task of separating the technical schools' financial information from the district to determine the fund balance was a difficult project. Consequently, the level of risk for these schools was dependent on the accounting systems at the individual school districts and the ability of the districts and colleges to determine final fund balances. There was less risk with colleges that were already independent of school districts prior to the merger because these colleges had separate accounting records.

Objectives and Methodology

Our primary objectives for review of the transfer of cash and investments were:

- Did the technical colleges transfer the correct cash and investment balances to the state?
- Did the colleges properly record fund balances transferred onto the MAPS system?

We compared the Governmental Fund balances shown on the technical colleges audited financial statements for the year ended June 30, 1995 to the amounts actually transferred to the State Treasury. We investigated the variances between the amounts the colleges recorded on MAPS to their Governmental Fund balances.

Conclusions

Technical colleges did not properly record the final transfer of fund balances in the statewide accounting system (MAPS). The colleges had difficulty accounting for and transferring the correct fund balances to the State Treasury. Of the eleven colleges reviewed, we could not resolve significant negative variances for Lake Superior College and St. Paul Technical College. We found that Minneapolis, Northwest, and St. Paul Technical Colleges did not properly deposit certain funds in the State Treasury. St. Cloud and St. Paul also withheld state funds and purchased investments. Finally, some colleges did not obtain sufficient collateral for deposits held in local bank accounts.

3. The technical colleges did not properly record the final transfer of fund balances in the statewide accounting system (MAPS), and some colleges did not properly deposit certain funds in the State Treasury.

The eleven colleges reviewed did not properly record the fund balance transfers to the state on MAPS. Many of these colleges were affiliated with school districts, which further complicated the accounting for the final liquidation of assets and liabilities and the final transfer of fund balances to the state. Colleges had to rely on school districts to assist them in estimating final transfer amounts. Technical colleges affiliated with school districts were just establishing business systems to account for their financial activity. Thus, the final 1995 records to show the disposition of the accounts receivables and payables were not complete. Several of the school districts kept sufficient funds to liquidate outstanding technical college accounts payable. In addition, most colleges did not account for the collection of the 1995 accounts receivable separately. Colleges transferred the final balances at various times from July 1995 to March 1996. Many colleges made errors in transferring their cash to MAPS and made several correcting adjustments through May 1996. It was difficult to determine the final disposition of the fiscal year 1995 Government Fund balances recorded on MAPS.

We pursued the variances between the Governmental Fund balances as of June 30, 1995, reported on the colleges' audited financial statements, and the amounts recorded on MAPS with the college business managers. We identified several adjustments that reduced the amount of the variance for several colleges. Many colleges erroneously recorded the collection of fiscal year 1995 accounts receivable as 1996 revenue in MAPS. Table 3-1 below shows the comparison of the Governmental Fund balances to the transfers recorded on MAPS for selected technical colleges. The adjustments between the fund balance and the cash recorded on MAPS are explained in the footnotes to the table.

Two colleges have significant negative variances that remain unresolved. We could not determine the reasons for the variances as shown in the table. Significant negative variances remain for Lake Superior College and St. Paul Technical College totaling $373,215 and $102,899, respectively. Although these colleges could not provide specific evidence of the transfer of these funds to the State Treasury, the differences may include accounts receivable collected and deposited as 1996 revenue in MAPS. However, these colleges did not maintain sufficient records to show the disposition of the Governmental Fund balances. The MnSCU system office did not review the propriety of the technical college balances that were transferred to the State Treasury.

In addition, we found that three technical colleges did not properly transfer certain funds to the State Treasury. Northwest Technical College did not transfer state grant funds totaling $228,997 to the State Treasury. Minneapolis Technical College did not transfer a Debt Service Fund balance of $205,560. St. Paul Technical College did not transfer two state programs totaling $57,740. These colleges do not have statutory authority to retain these funds outside of the State Treasury.

Table 3-1
Comparison of Governmental Fund Balances as of June 30, 1995 to Amounts Recorded in MAPS as of March 31, 1996

College	Governmental Fund Balances	Known Adjustments	Calculated Transfer Amount	Amounts Recorded in MAPS	Unexplained Variances
Independent Colleges:					
Central Lakes	($ 277,791)	$ 600,000(1) (64,110)(2)	$ 258,099	$ 421,149	$ 163,050
Northwest	945,812	**(228,997)(3)** (572,545)(4)	144,270	144,270	0
Riverland	(128,240)	1,000,000 (1) (215,480)(5)	656,280	641,498	(14,782)
Colleges Affiliated with School Districts Before Merger:					
Century Technical	$1,182,042	$202,959(6)	$1,385,001	$1,456,673	$71,672
Dakota	1,241,055		1,241,055	1,262,431(10)	21,376
Lake Superior	(77,758)	350,000(1) 154,139(7)	426,381	53,166	**(373,215)**
Minneapolis	1,276,980	**(205,560)(3)**	1,071,420	1,076,254	4,834
Pine	224,795		224,795	236,175	11,380
St. Cloud	1,293,094	(734,297)(8)	558,797	564,539(10)	5,742
St. Paul	2,913,208	(521,606)(9) **(57,740)(3)**	2,333,862	2,230,963(10)	**(102,899)**
South Central	(910,160)	1,200,000(1)	289,840	276,266	(13,574)

(1) These colleges received authorized advances of their fiscal year 1996 appropriations to recover from deficits.
(2) Central Lakes accounted for adjustments of $64,110 for prepaid expenses and inventories.
(3) The following three colleges did not transfer certain balances to the state:
Minneapolis-Debt Service Fund balance of $205,560
Northwest-State Higher Education Services Office grants totaling $228,997
St Paul - SHEROS Retreat and MN SAT Telecommunications totaling $57,740
(4) Northwest College, including the former Thief River Falls Technical College, accounted for the adjustments of $572,545. Northwest deposited 1995 accounts receivable of $363,000 into the 1996 tuition account in MAPS. Other adjustments of $209,545 were for prepaid expenses, inventories, and imprest cash funds.
(5) Riverland deposited 1995 accounts receivable of $215,480 into the 1996 tuition account in MAPS.
(6) Century accounted for adjustments of $202,959. The adjustments included deferred revenue of $352,353 less prepaid expenses, inventories, and imprest cash funds totaling $149,394.
(7) Lake Superior transferred $154,139 in 1996 revenue to the Duluth School District to cover 1995 accounts payable.
(8) The St. Cloud School District transferred $500,000 to the state which was deposited in the MnSCU capital projects account. St. Cloud Technical College deposited $219,415 of accounts receivable for 1995 in the 1996 General Fund accounts on MAPS. An additional adjustment of $14,882 was for prepaid expenses.
(9) St. Paul deposited 1995 accounts receivable for tuition, customized training, and other state programs totaling $512,011 in 1996 accounts on MAPS. An additional receivable of $9,595 was not collected as of May 1996.
(10) Amounts recorded in MAPS as of May 31, 1996, because these colleges made adjustments after March.

Sources: Fiscal year 1995 financial statements, account balances recorded in MAPS, and other financial records.

Recommendations

- *MnSCU management should review the propriety of the Governmental Fund balances recorded on MAPS and investigate significant variances, including Lake Superior College and St. Paul Technical College.*

- *The following colleges should transfer the remaining balances to the State Treasury: Minneapolis $205,560, Northwest $228,997, and St. Paul $57,740.*

4. Two colleges improperly purchased investments with funds that should have been deposited in the State Treasury.

St. Paul and St. Cloud Technical Colleges did not properly transfer invested funds to the State Treasury. St. Paul invested $2.4 million in a money market fund outside of the State Treasury. This investment was funded by federal financial aid reimbursements that were collected in fiscal year 1996 for tuition. St. Cloud Technical College invested its 1995 funds of $500,000 in a similar account. There was no authority for the colleges to maintain General Fund cash and earn interest on this money outside of the State Treasury.

Recommendation

- *The technical colleges should transfer these investments to the State Board of Investments.*

5. Three colleges did not obtain the required collateral for local bank accounts.

Three colleges did not obtain the legally required amount of collateral for their local bank accounts. Minn. Stat. Section 118.005 requires state agencies to establish collateral equal to 110 percent of their amount on deposit at the close of the business day, less any insured portion. St. Paul and South Central Technical Colleges did not establish sufficient collateral for the bank accounts. The St. Paul College bank balance at the end of April exceeded $2.4 million, while the insured balance and applicable collateral amounted to $600,000. Duluth did not establish any collateral for its bank accounts. South Central Technical College was cited by the previous external auditors for not maintaining the required collateral balances. South Central Technical College has not resolved this issue. The colleges need to determine the future maximum uninsured balance and establish the necessary collateral. The colleges' establishment of adequate collateral reduces the risk associated with the loss of state funds.

Recommendation

- *The colleges should comply with the statutory requirements and maintain collateral for all bank accounts sufficient for the cash balance in the accounts.*

6. Lake Superior College changed the interest rate for lease payments without revising the lease agreement.

Lake Superior College unilaterally changed the interest rate paid on the negative cash balance owed to the Duluth School District. An agreement with MnSCU provided a payment plan to the school district to eliminate the cash deficit. This agreement stated that the school district would assess interest at a rate of 7.8 percent on the negative cash balance. Officials from both the Duluth Public Schools and Lake Superior College signed the agreement. Lake Superior College made a payment on March 4, 1996. The payment included an interest rate of 5 percent. This was not the agreed upon rate included in the agreement. Lake Superior College had no authority to change the interest rate without changing the terms of the agreement.

Recommendation

- *Lake Superior College should comply with the agreement with the Duluth School District and pay interest based upon the agreed to rate, or formally negotiate an amended agreement.*

Land and Buildings

Minn. Laws of 1994, Chapter 532, Art. 5, Section 9, Subd. 1 authorized the transfer of land and buildings to the state. The law required seven school boards, three intermediate school boards, and the joint vocational technical boards to transfer, without compensation, all real property, personal property, and improvements to the state, which subsequently became MnSCU. The law also provided MnSCU with authority to identify college property to be transferred to the state. MnSCU's three criteria for identifying and acquiring the technical college property was as follows:

- Is the property currently being used by the technical colleges?
- Did the State of Minnesota purchase the property?
- Is the property consistent with the mission of the technical college?

MnSCU employed a private law firm and the Minnesota Department of Transportation to work with the State Attorney General's Office in conducting the necessary fieldwork and research to deliver, for each college, the set of transfer documents consisting of a resolution, bill of sale and the deed for the property. MnSCU approved the transfer of property on May 11, 1995. Prior to July 1995, MnSCU delivered the documents to each of the colleges for examination and for approval by the appropriate governing boards. MnSCU is currently working to resolve title problems relating to 16 parcels, such as individual buildings, small acreages, and a parking lot.

Audit Objective and Methodology

Our objective in reviewing the transfer of buildings and land to MnSCU is as follows:

- Was MnSCU's process adequate to ensure the proper transfer of buildings and real estate to the state?

We completed interviews to gain an understanding of the transfer process. We also obtained and reviewed documentation related to the transfer, including the resolution, the bill of sale and deed. We reviewed the approval of the transfer by MnSCU and supporting documentation for resolving the final ownership issues.

Conclusions

The process for transferring the property to MnSCU was reasonable and effective. The process included identifying the property, obtaining the necessary approvals, and developing a process to resolve any remaining issues.

Equipment

Laws of Minnesota for 1994 also authorized the transfer of personal property (equipment) to MnSCU on July 1, 1995. The MnSCU system office did not participate in the proper recording of equipment and did not provide uniform guidance for the technical colleges. Each college was responsible to transfer the equipment from its respective school district and to inventory and record personal property on its records.

Audit Objectives and Methodology

Our objectives for equipment were as follows:

- Did the colleges properly receive and record equipment from the affiliated school districts on July 1, 1995?

- Did the colleges have an adequate inventory system to account for equipment inventory?

We conducted interviews with appropriate staff at each college to determine how the transfer of equipment occurred. We reviewed inventory documents and previous financial audit reports in an attempt to determine the value of the equipment. We also determined if the individual colleges established an inventory system to account for the equipment transfer and for any purchases or deletion of equipment since July 1, 1995.

Conclusions

We found that significant deficiencies existed in the accountability of equipment for all colleges included in our audit scope, . Many colleges did not verify the equipment received in the transfer to MnSCU from the school districts. The colleges also have not established an inventory system to account for the equipment currently at the colleges. These issues are discussed in finding 7.

7. The technical colleges included in our review did not determine the accuracy of the equipment inventory after the merger. These colleges did not establish an inventory system that properly accounts for equipment.

The technical colleges did not verify equipment transferred to MnSCU as of July 1995. Most colleges had an inventory listing but did not complete a physical inventory to confirm the completeness of the inventory. The verification of equipment transferred to the colleges is an essential element in the accountability of assets.

These technical colleges also have not developed an effective inventory system to properly account for equipment. The colleges have either not initiated development of an inventory system, or have not corrected the deficiencies in the current system. As a result, the colleges need to resolve several issues including the following:

- Verification of the inventory records as of July 1995
- Recording purchases and deletions since July 1995
- Completion of a physical inventory
- Development of a current equipment inventory list
- Attachment of state identification tags to the equipment

Significant risk for equipment exists because the colleges have not established adequate accountability over these assets. Without an effective inventory system, misuse or theft of equipment could go undetected.

Recommendations

- *MnSCU should develop an inventory system that would provide accountability for equipment located at each college.*

- *The colleges should properly account for equipment inventory.*

Chapter 4. Technical College Personnel/ Payroll

Chapter Conclusions

MnSCU and the technical colleges properly classified employees and established appropriate pay rates for its employees in accordance with the state laws and employee bargaining agreements. However, MnSCU does not have a uniform payroll process for its campuses. The payroll process for the technical colleges was very cumbersome and increased the risk of errors. On several occasions, state employees at the colleges did not receive their payroll checks on a timely basis. In addition, some colleges had incomplete employee leave records and inadequate segregation of duties in the personnel/payroll function.

The classification of personnel to the state was a well-planned process, but payroll processing encountered difficulties after the merger occurred. In addition, the faculty compensation plan has been delayed and was still not settled as of August 1996. The main issues to resolve are faculty workload and salary. MnSCU cannot complete the transfer process for faculty, including payroll and leave adjustments, until this agreement is finalized.

Minnesota Laws of 1994, Chapter 532, Article 5 authorized the transfer of technical college employees on July 1, 1995. The law specifies that people who were employed by the technical colleges on June 30, 1995, should be transferred into state service without loss of pay or position. The law also transferred employment dates, leave balances, years of service and benefits with each employee.

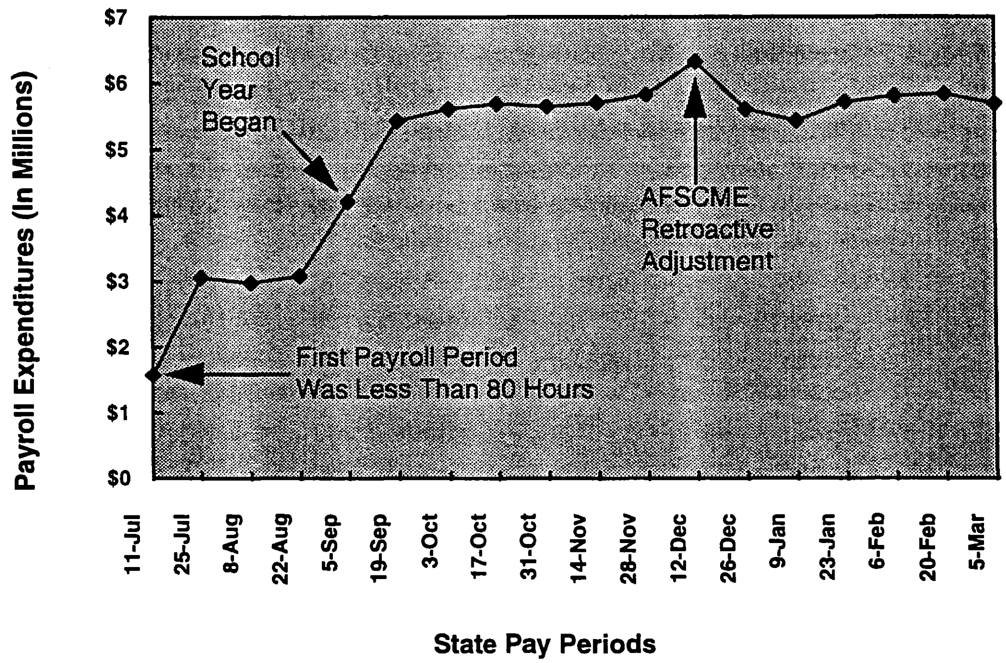
The MnSCU system office began distributing employee classification materials to the technical colleges in February 1994. In addition, the system office held training in April 1994 to assist human resource directors with the state's position description process. Employees and their supervisors developed position descriptions (PDs) which were approved by the colleges' human resource directors. The system office committees reviewed PDs for classified and unclassified employees plus excluded administrators. The committees included representatives from the community colleges, technical colleges, state universities, the system office and the Department of Employee Relations. The committees compared each employee's duties and responsibilities to similar state positions and determined the appropriate state classification. The committees reviewed 2,300 non-faculty employee position descriptions prior to the merger and bargaining unit determinations for 2,400 faculty members in the fall of 1995. Technical college employees had until April 15, 1996, to review and appeal the new classifications. Initially, about 400 technical college employees appealed their classifications.

The development of the technical colleges' personnel database was a cumbersome process. The system office manually entered the technical college employees onto the state's personnel database. The colleges prepared employee action forms and sent the paper forms to the system office for input into PPS. Most colleges sent payroll summaries to the system office for manual input into PPS. The colleges and the system office encountered processing difficulties because of the large volume of transactions sent to the system office for input on PPS. The cumbersome process increased the risk of payroll errors. On several occasions, some state employees at the technical colleges did not receive their payroll checks timely.

Technical college employees are covered by the following compensation plans: Minnesota State Employees AFSCME Union, Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Excluded Administrators Plan, and United Technical College Educators (UTCE). In 1994, each union representing MnSCU employees established Memorandums of Understanding with the state, except for UTCE. The memorandums extended the bargaining agreements to include technical college employees until new state contract negotiations were completed. The bargaining agreements for the years 1996 and 1997 were settled after the merger. AFSCME settled in October 1995 and MAPE settled in January 1996. These bargaining agreements outlined the process of transferring employee wages, the assignment of employee duties, accruals of sick leave and vacation benefits, and the earning of other fringe benefits. About half of the colleges separated from the local school district to join the state. Some of these colleges had complications obtaining former school district employees' personnel files. However, the colleges have access to necessary information. Currently, colleges have the option to maintain employee leave on manual records, computer systems, or PPS.

We obtained payroll data for the technical college employees through the state's Personnel/Payroll System (PPS) for July 1, 1995, to March 5, 1996. This data does not reflect all collective bargaining agreement settlements for fiscal year 1996. After the AFSCME contract settled on October 23, 1995, and payroll adjustments on December 12, 1995, average payperiod payroll costs were $5,677,800 excluding fringe benefits. Since December 12, 1995, the average number of technical college employees on the payroll system was 9,400. Figure 4-1 shows payroll expenditures for technical college employees since transition to state service.

Figure 4-1
Technical College Payroll Expenditures
Through Pay Period End Date March 5, 1996



Source: Personnel/Payroll System for fiscal year 1996 through pay period ending March 5, 1996.

MnSCU uses the State's Personnel/Payroll System (PPS) to issue payroll warrants. It intends to use PPS only temporarily and is converting to the state's new payroll system, SEMA4. Beginning May 1996, selected campuses started a pilot project to interface SCUPPS payroll information into SEMA4. MnSCU plans to establish an interface for the remaining campuses in the future. See Chapter 2, Financial Management, for a detailed description of MnSCU's payroll process and audit issues related to the system as a whole. Chapter 2 also discusses the technical colleges incomplete recording of payroll transactions on MnSCU Accounting.

Audit Objectives and Methodology

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

- Did MnSCU properly classify its employees and establish the proper employee rate of pay on the state payroll system?
- Did the transfer of personnel comply with the state law and the employee bargaining agreements?

To answer these questions, we reviewed the classification process at the system office and college level. At eleven colleges, we sampled payroll expenditures to review employees' rates of pay transferred at July 1, 1995, and payroll adjustments during fiscal year 1996. We also reviewed the colleges' leave recording process and the transfer of leave balances at July 1, 1995. Finally, we gained an understanding of the payroll process.

Conclusions

MnSCU and the technical colleges properly classified employees and established appropriate pay rates for its employees in accordance with the state laws and employee bargaining agreements. As discussed in Chapter 2, the payroll process used for the technical colleges was very cumbersome and increased the risk of errors. In addition, some colleges had incomplete employee leave records and inadequate segregation of duties in the personnel/payroll function, as discussed in the following findings.

8. Six colleges have incomplete or inaccurate employee leave records.

Six of the eleven colleges we visited had incomplete, incorrect or inappropriate employee leave balances. Without recording employees' use of leave, the colleges risk employees using unearned leave.

Century Technical, Lake Superior, and St. Cloud were not accurately recording or reviewing the leave taken by faculty. The colleges were waiting for settlement of the faculty contract before trying to convert faculty duty days to an hourly basis. The faculty contract was not settled as of June 1996. At Lake Superior, we found faculty leave records are not adequately reviewed to ensure proper faculty leave balances.

Riverland and Dakota did not update their employees' leave balances for fiscal year 1996. These colleges collect employee leave slips for leave taken but did not update employee leave records. Several other colleges also maintained manual leave records for their employees.

Dakota, South Central, and Century Technical have incorrect leave accruals for some employees. We found Dakota has one employee with an incorrect leave accrual. Also, South Central did not prorate leave accruals for its part-time staff, giving part-time staff more leave than allowed by the contract. Century is working with the Department of Employee Relations to determine the correct leave balance used to calculate an employee's severance pay.

Recommendations

- *The technical colleges should update employee leave records for employee leave taken on a timely basis.*
- *Dakota and South Central Technical Colleges should correct leave accruals for their employees.*

9. Four colleges have an inadequate separation of duties over the personnel and payroll functions.

Four colleges have inadequate separation of duties over the personnel and payroll processing. At Riverland and South Central the payroll clerk prepares payroll data, reviews the payroll certification report, and distributes payroll checks. At Dakota Technical College, no one independently reviews the payroll certification report to ensure that it contains only authorized payroll expenditures. At Minneapolis Technical College, the payroll clerk prepares payroll data and is responsible for adding new employees into PPS.

Colleges need to ensure processing of only authorized payroll transactions. Payroll input is conducted by the MnSCU system's office, but is not intended to verify the accuracy of payroll data. Inadequate separation of duties exist when one person has the ability to add an employee to the state's Personnel/Payroll System (PPS), to process employee payroll and to access employee pay checks.

Recommendation

- *Dakota, Minneapolis, Riverland, and South Central Technical Colleges should separate the personnel and payroll functions.*

10. Minneapolis Technical College had not resolved $11,541 in outstanding salary advances dating back to July 1995.

Minneapolis Technical College has $11,541 in salary advances outstanding from its imprest cash fund dating back to July 1995. Minneapolis Technical College provided salary advances to 30 employees until they received a state payroll warrant. These employees now receive their payroll warrants through PPS each pay period. However, 22 employees still have outstanding advances. Department of Finance and Administration Operating Policy and Procedure 06:08:02 provides for the timely settlement of employee salary advances.

Recommendation

- *Minneapolis Technical College should collect the outstanding salary advances.*

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Chapter 5. Technical College Tuition and Fee Revenue

Chapter Conclusions

Most technical colleges do not have adequate controls over the collecting, depositing, recording, and reconciling tuition and fee revenue. We found various control weaknesses in the tuition and fee revenue accounting system. In addition, we found colleges granting tuition deferments without explicit authority.

The technical colleges collect tuition and fees each quarter from students enrolled in campus programs. For fiscal year 1996, colleges charged $40.00 per credit plus miscellaneous fees. Many technical colleges also collect tuition for customized training classes. Colleges provide predesigned or tailored classes for businesses that want to train their employees. Tuition and fees as summarized by MnSCU for fiscal year 1995 totaled approximately $77 million. Tuition, fees, and customized training represent about 78 percent, 4 percent, and 18 percent of revenues, respectively.

The technical colleges use different systems to register students and record tuition and fees owed. When a college collects tuition and fees from students, it records the receipts on its student information system.

Audit Objectives and Methodology

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

- Did the technical colleges have adequate accounting systems in place to properly bill, collect and deposit student tuition and fee revenue?
- Did the colleges properly record tuition and fee revenue on the MnSCU and MAPS accounting systems?
- Did the colleges deposit tuition and fees in the State Treasury timely?

To answer these questions, we reviewed the accuracy of tuition and fee revenue recorded on MnSCU and MAPS accounting systems. We also reviewed the colleges' controls over the billing and collecting of tuition and fee revenue. As issues came to our attention, we reviewed colleges' procedures for tuition deferments.

We audited tuition revenue at 12 colleges consisting of 15 campuses. During fiscal year 1996, most multi-campus technical colleges collected tuition and fee revenue at each campus. Then the campuses combine revenues for depositing and recording. However, each Northwest Technical College campus collects, deposits, and records revenue. Then one campus within Northwest Technical College is responsible for the MnSCU to MAPS reconciliation.

Overall Conclusions

Most technical colleges do not have adequate controls over the tuition and fee collection system. We noted weaknesses in the controls over reconciling, collecting and recording of tuition and fee revenue. In addition, it is unclear if the technical colleges have authority for granting tuition deferments.

11. Eleven technical colleges did not reconcile tuition and fees to ensure that amounts were properly recorded.

Eleven colleges (Central Lakes, Dakota, Lake Superior, Minneapolis, Northland Technical, Northwest, Pine, Riverland, St. Cloud, St. Paul and South Central) did not complete one or all of the necessary reconciliations to ensure that tuition and fees were properly deposited in bank depository accounts and recorded on the MnSCU accounting system and MAPS. Each campus collects tuition and fees and records these receipts on student information systems. Each campus deposits tuition and fees in state depository bank accounts. Revenues are then recorded on the MnSCU and MAPS accounting systems. One critical management control is to reconcile the accounting records to the bank account balances to ensure the records are accurate.

Of the twelve colleges we tested, only Century Technical reconciled its tuition account. The lack of reconciliations reduces the assurance of the accuracy of account balances recorded on the state's accounting system. The colleges need to complete these reconciliations timely so that problems can be resolved readily and accounting records corrected as necessary. Some reconciliations that the colleges need to complete are shown in Table 5-1.

Table 5-1
Required Reconciliations

Reconciliations	Purpose
Tuition and fee receipts to Student Information System	To verify the accuracy of tuition collections posted to student records
Student Information System to MnSCU and MAPS Systems	Verify the accuracy of receipts posted to MnSCU and MAPS
MnSCU accounting to Bank statements	To ensure the completeness of bank activity in the accounting records

Source: Auditor developed.

Recommendations

- *The technical colleges should complete the necessary reconciliations on a timely basis to ensure the accuracy of their accounting records.*

12. Several technical college campuses did not promptly deposit revenue according to state statute or promptly deposit funds into the State Treasury account.

Seven campuses (Dakota, Minneapolis, Northland Technical, Northwest Technical College - Bemidji - East Grand Forks - Moorhead, and Pine) did not deposit tuition receipts into the state depository timely. Pine Technical College did not make a $10,000 deposit for four months. Minneapolis Technical College did not deposit $105,000 in student loan checks for two weeks.

Daily deposit of incoming receipts minimizes the risk that funds could be lost or stolen and maximizes investment earnings for the state. Minn. Stat. Section 16A.275 requires agencies to deposit receipts daily with the state treasury if they total $250 or more.

In addition, we found four campuses did not promptly move the tuition and fee revenue into the state depository account. Lake Superior and Minneapolis Technical Colleges had tuition revenue balances of $700,000 and $356,000, respectively, in local bank accounts that should have been in the state depository account. Also, Pine and South Central Technical Colleges had state revenues deposited in local bank accounts. The tuition revenue may be recorded on MnSCU accounting and MAPS but never deposited into the state depository account.

Recommendation

- *The college campuses should promptly deposit tuition and fee revenue as required by state law. Lake Superior College and Minneapolis, Pine, and South Central Technical Colleges should deposit their state funds into the state depository accounts.*

13. Twelve college campuses did not promptly record tuition and fee revenue on the accounting system.

Twelve college campuses did not promptly record tuition and fee revenue. The colleges collected tuition and fee revenue either directly from students or by offsetting the receivable with student financial aid. However, the campuses did not enter the corresponding revenue transaction into the MnSCU accounting system timely. Without that entry, the state's accounting system (MAPS) is unable to record the revenue transaction and the State Treasurer's Office is unable to sweep the funds into the state account.

Three campuses did not record tuition and fee revenue earned for fiscal year 1996 until November 1995 or later. Northwest Technical College - Wadena did not record any tuition and fee revenue until April 1996 when it recorded $685,000. This included tuition and fees collected from July 1995 through April 12, 1996. Northwest Technical College - Moorhead recorded $785,000 in revenue in January 1996. This included tuition and fees collected from July 1995 through December 13, 1995. Pine Technical College did not record any tuition and fee revenue until November 1995 when it recorded $41,000.

Four campuses did not promptly record tuition and fee revenue when received. Northwest Technical College - Bemidji and Detroit Lakes, South Central and Minneapolis Technical Colleges recorded tuition and fee revenue two weeks to two months after receipt.

Five campuses (Central Lakes, Dakota, Northland Technical, St. Cloud, and St. Paul) did not record tuition and fee revenue offset with student financial aid in a timely manner. As of the end of June 1996, Dakota did not record any aid applied to tuition and fees for winter and spring quarters. Also, Central Lakes College, Northland Technical, St. Cloud, and St. Paul Technical Colleges did not record any aid applied to tuition and fees for any quarters as of June 1996. Some colleges had problems obtaining accurate revenue information from the student information system. The college did not want to recognize tuition and fee revenue until they felt the information was accurate.

Recommendation

- *The technical college campuses should record tuition and fee revenue on the MnSCU accounting system as it is collected.*

14. The technical colleges granted tuition deferments without explicit authority.

We noted that nine campuses (Central Lakes, Dakota, Lake Superior, Northwest Technical College-Bemidji and Detroit Lakes, Pine, St. Cloud, St. Paul and South Central) grant tuition deferments to students. These colleges have full discretion to allow students to defer payment of tuition. We question the technical colleges' authority to grant tuition deferments to students. State universities and community colleges mainly grant deferments to students if a financial aid award is pending.

We noted instances where campuses allowed tuition deferments beyond the last day of classes. For example, Pine Technical College allowed students to register for classes even though those students owe the college money from previous classes. The college allowed one student a deferment which would take the student 18 months to pay in full. This college and others do not assess late fees or interest on these deferred amounts.

Recommendation

- *MnSCU should evaluate the practice of allowing technical colleges to grant tuition deferments.*

15. Fifteen campuses have not adequately separated duties over revenues.

All 15 campuses audited have not adequately separated duties over tuition, fee, customized training, or bookstore revenue. At these campuses, one employee is responsible for incompatible revenue functions. Commonly, campuses have one employee who collects the day's receipts, posts to the accounts receivable records, reconciles the receipts to the accounts receivable records and prepares the bank deposit. At the campuses audited, one employee performed a combination of the following functions:

- counting the day's receipts,
- posting to the accounts receivable records,
- reconciling the receipts to the accounts receivable records,
- reviewing voided transactions,
- preparing the bank deposit,
- posting receipts to the MnSCU accounting system,
- reconciling the bank account, and
- accessing the registration system.

To prevent and detect errors and irregularities, the campuses should assign some key receipt functions to other individuals.

Recommendations

- *The technical college campuses should separate duties over receipts.*
- *The technical college campuses should limit employee access to information systems.*

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Chapter 6. Technical College Student Financial Aid

Chapter Conclusions

The technical colleges have adequate internal controls to reasonably ensure compliance with federal student financial aid laws and regulations. We did identify, however, some other aspects of internal control that could be improved. We also found isolated instances of noncompliance.

The Technical Colleges participate in the following student financial aid programs administered by the Office of Post-secondary Education within the U.S. Department of Education:

- The Federal Pell Grant Program (CFDA #84.063)
- The Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- The Federal Work-Study (FWS) Program (CFDA #84.033)
- The Federal Supplemental Educational Opportunity Grant (SEOG) Program (CFDA #84.007)

The Federal Pell Grant and Federal Family Education Loan Programs are material federal programs for the State of Minnesota's Single Audit.

The Federal Pell Grant is generally considered the first source of assistance to the student. Since Pell Grant payments are not limited to the available funds at the colleges, all eligible students will receive aid payments. The maximum Pell Grant was $2,340 for a student in the 1995-96 award year.

Under the Federal Family Education Loan Program, private lenders provide the loan principal and the federal government "guarantees" the loan. For Federal Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the borrower.

We audited financial aid at six colleges consisting of twelve campuses. During fiscal year 1996, most multi-campus technical colleges packaged financial aid separately for each individual campus. However, some multi-campus technical colleges drew federal cash and reported federal financial aid activity on the college level rather than the campus level. Therefore, for purposes of this chapter, we present findings and recommendations by campus rather than by college.

Audit Objectives And Methodology

The primary objective of our review of student financial aid was to determine the following:

- Did the campuses have adequate internal controls to ensure compliance with federal student financial aid laws and regulations?

To address this question, we evaluated and tested controls over compliance for student eligibility, awarding, and disbursing. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

Conclusions

The technical colleges have adequate internal controls to reasonably ensure compliance with federal student financial aid laws and regulations. However, we noted some weaknesses in the technical colleges' internal control structure over federal student financial aid programs. We also noted some compliance exceptions to the federal student financial aid regulations.

We discuss these issues and a state cash management issue by individual campus in findings 16-24.

Findings common to more than one campus

16. The financial aid office at ten campuses has unnecessary access to financial aid checks. One campus does not adequately safeguard financial aid checks.

The financial aid offices at ten campuses receive incoming Federal Family Education Loan (FFEL) checks directly from lenders. In addition, financial aid offices at five of these campuses (Central Lakes, St. Cloud, Pine, Northwest Technical College - East Grand Forks and Moorhead) also receive other student financial aid checks before release to students. Finally, the bookstore at Northwest Technical College - Moorhead did not adequately safeguard checks that it has not yet disbursed to students.

The financial aid office is responsible for determining and documenting student eligibility for all federal financial aid programs. The financial aid office authorizes financial aid awards. To improve internal controls and prevent potential misuse of financial aid funds, the campuses need to ensure that employees who are able to authorize financial aid do not have access to those funds. In addition, the campuses should adequately safeguard checks that they have not yet disbursed to students. Some campuses receive FFEL proceeds through electronic funds transfer. This process decreases the risk of misuse of funds because the financial aid office does not have access to these funds.

Recommendations

- *The technical colleges should have the business office directly receive and distribute financial aid checks.*

- *The technical colleges should adequately safeguard financial aid checks until disbursement to students.*

17. Three campuses have not established sufficient accounting records to monitor and manage cash by federal programs. One campus did not record financial aid transactions timely.

St. Paul, St. Cloud, and Lake Superior College have not established sufficient accounting records to adequately manage federal cash and financial activity. These campuses do not have accounting records which identify transactions by program. In addition, Northwest Technical College - Wadena updated their accounting records once as of April 1996 for federal financial aid transactions. Federal regulations require schools to establish and maintain accounting records that identify each program transaction on a current basis. In addition, accounting records are needed to manage cash by federal program.

Recommendation

- *The technical colleges should post financial aid transactions to MnSCU accounting on a current basis. This would provide sufficient detail to promote effective cash management and provide efficient and accurate reporting.*

18. Two campuses submitted inaccurate information on the monthly federal cash transactions reports.

St. Cloud Technical College submitted inaccurate information on federal cash transaction reports for fiscal year 1996. The campuses entered the same amount for total receipts and disbursements for the month, leaving an ending cash balance of $0. These reports did not reflect the actual transactions occurring in the federal financial aid programs. In addition, the campus submitted five of eight reports late. These reports were from nine to forty-five days late.

Minneapolis Technical College reported incorrect Federal Pell Grant disbursements on three monthly federal cash transactions reports. The combined effect of these errors was a $50,000 overstatement in expenditures. Federal regulations require schools to report timely and accurate information.

Recommendation

- *St. Cloud and Minneapolis Technical Colleges should report accurate information on federal reports timely.*

19. Two campuses' satisfactory academic progress policies did not meet federal guidelines.

Northwest Technical College - East Grand Forks' satisfactory academic progress policy did not contain a cumulative quantitative and a cumulative qualitative measure of progress. In addition, the policy did not explain how withdrawals, incompletes, repeated courses, and noncredit remedial coursework affect the determination of the student's progress. Federal regulations require the inclusion of these elements in satisfactory academic progress policies.

St. Cloud Technical College's satisfactory academic progress policy did not set a maximum time frame in which a student is expected to finish the program. The regulations specify that for an undergraduate program, the maximum time frame may not exceed 150 percent of the published length of the program.

Recommendation

- *Northwest Technical College - East Grand Forks and St. Cloud Technical College should ensure the satisfactory academic progress policies include the elements specified in the federal regulations.*

State cash management issue

20. Five campuses used state or local money to temporarily fund federal student financial aid programs.

Five campuses used state or local money to temporarily fund federal student financial aid programs. These campuses did not request federal funds to coincide with the disbursement of these funds.

St. Cloud Technical College requested federal funds in October and March. Central Lakes College, Pine Technical College and Minneapolis Technical College requested funds four times from July through March. However, these colleges disbursed federal financial aid to students throughout the year. Finally, St. Paul Technical College disbursed approximately $700,000 at the end of September 1995. The college did not request full reimbursement until nearly two months later. The state lost the use of those funds and potential interest earnings on those funds because these colleges did not request federal reimbursement on a timely basis.

Recommendation

- *The technical colleges should request federal money to coincide with the disbursement of those funds.*

Findings unique to individual campuses

21. Minneapolis Technical College paid financial aid to an ineligible student.

Minneapolis Technical College overpaid a student $3,998 in state and federal financial aid. The college paid a student financial aid for classes taken on an audit basis. Audited classes do not count toward a degree and are not eligible for federal financial aid. As a result, the college overpaid the student $1,170 in Federal Pell Grant, $2,332 in Federal Subsidized Stafford Loan, and $496 in Minnesota State Grant.

Recommendation

- *Minneapolis Technical College should repay the Federal Pell Grant Program and the Minnesota State Grant Program $1,170 and $496, respectively. In addition, the college should work with the U.S. Department of Education to resolve the $2,332 Federal Stafford loan overpayment.*

22. Northwest Technical College - Moorhead made unreasonable adjustments to the cost of attendance budgets used to award financial aid to two students.

Northwest Technical College - Moorhead made several unreasonable adjustments to the cost of attendance (COA) budgets used to award financial aid to two students.

- The campus increased one student's COA budget by $1,380 for a down payment on an automobile. The student did not receive additional financial aid because of this adjustment. However, the campus created the potential for additional financial aid because of the adjustment.

- The campus increased one student's COA budget by $600 for an emergency trip and medical expenses for a relative. The student received an additional $559 in financial aid awards because of this adjustment. Furthermore, the campus did not adequately document these adjustments.

Federal regulations allow financial aid directors to use professional judgment to adjust COA budgets on a case-by-case basis. However, these adjustments must be related to educational needs. We question if these judgments were appropriate.

Recommendation

- *Northwest Technical College - Moorhead should ensure all professional judgment decisions made to increase cost of attendance budgets are directly related to educational purposes and comply with the intent of the federal financial aid programs.*

23. Northwest Technical College - East Grand Forks' cost of attendance budget did not comply with federal regulations.

The cost of attendance (COA) budget at Northwest Technical College - East Grand Forks did not comply with federal regulations. The campus used a $1,080 room and board allowance in its COA budget. However, federal regulations establish a $1,500 minimum room and board allowance for dependent students without dependents who live with parents. Students potentially received less student financial aid because of this error.

Recommendation

- *Northwest Technical College - East Grand Forks should establish cost of attendance budgets within the parameters identified in the federal regulations.*

24. One campus did not resolve conflicting information in one student file.

Northwest Technical College - Wadena did not resolve conflicting information regarding student's income in one file. The student was separated from a spouse when the student applied for financial aid. The 1994 tax return contained income for the student and the student's spouse. The student used one-half the joint income when applying for financial aid. It is unclear if this was the student's actual income, which is the amount that should have been reported on the financial aid application. The campus did not obtain the student's W-2 to verify actual earnings.

Federal regulations require institutions to verify certain information in files selected for verification. In addition, federal regulations require institutions to develop and apply an adequate system to identify and resolve discrepancies in the information that the institution receives from different sources.

Recommendation

- *Northwest Technical College - Wadena should resolve the conflicting information for this student.*

Minnesota State Colleges and Universities
Transition of Technical Colleges into the State
Reference List of System Office and College Findings

System Office or Technical College	*Chapter 2 - Financial Management*	Chapter 3 - - Transfer of Assets	*Chapter 4 - - Personnel/Payroll*	*Chapter 5 - - Tuition and Fees*	*Chapter 6 - - Student Financial Aid*
System Office	1 2				
Central Lakes	1 2	3 7		11 13 14 15	16 20
Dakota County	1 2	3 7	8 9	11 12 13 14 15	
Lake Superior	1 2	3 5 6 7	8	11 14 15	17
Mpls. Technical	1 2	3 7	9 10	11 12 13 15	16 18 20 21
Century Technical	1 2	3 7	8	15	
Northland Technical	1 2			11 12 13 15	
Northwest:					
Bemidji	1 2	3 7		11 12 13 14 15	16
Detroit Lakes	1 2	3		11 13 14 15	16
East Grand Forks	1 2	3 7		11 12 15	16 19 23
Moorhead	1 2	3 7		11 12 13 15	16 22
Wadena				13	16 17 24
Pine	1 2	3		11 12 13 14 15	16 20
Riverland	1 2	3 7	8 9	11 15	
St. Cloud	1 2	3 4 7	8	11 13 14 15	16 17 18 19 20
St. Paul	1 2	3 4 5 7		11 13 14 15	16 17 20
South Central	1 2	3 5 7	8 9	11 13 14 15	

This appendix shows the system office and college findings as further discussed in the applicable report chapters. Unshaded areas show the audit coverage at the system office or the college. Some issues came to our attention during the audit that were not part of the defined audit scope for this college. These findings are shown in the shaded area for the respective college.

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August 23, 1996

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report. The past year has been one of tremendous challenge and growth for MnSCU. The merger greatly impacted technical college staff as they learned and implemented state policies and procedures. In addition, MnSCU implemented new financial and personnel systems. We believe that these changes will result in an efficient and effective higher education system.

MnSCU is a new enterprise of immense magnitude, and there have been some inevitable difficulties. We acknowledge the internal control weaknesses shown in the audit report and are developing a plan to correct each problem. In addition, we plan to work with the presidents of all our institutions to stress the importance of financial controls and methods for developing effective control systems.

The audit report has been very valuable to MnSCU. Information provided in the report is particularly useful in implementing the kind of sound management practices needed in a new organization. My thanks to your staff for the professional and courteous manner in which they conducted the audit.

Listed below is our plan for correcting each individual finding. In some cases, the corrective action has already occurred.

1. MnSCU has not fully developed its business systems to ensure the integrity of its transactions and to provide complete financial information.

The switch to the state's new payroll system (SEMA4) should improve the payroll process. We have worked with the Departments of Finance and Employee Relations to develop an interface between our personnel system and SEMA4. This interface reduces the number of manual steps involved in personnel processing. All institutions will be using this interface and SEMA4 by September 23, 1996.

We will modify the payroll posting program by November 30, 1996 to update MnSCU accounting system automatically. This will provide complete payroll information in a timely manner. Institutions will have all fiscal year 1996 payroll posted to the MnSCU accounting system by December 31, 1996.

We plan to automate the reconciliation of the MnSCU accounting system and the state accounting system (MAPS) by November 30, 1996. We will also monitor the system to ensure that institutions complete periodic reconciliations.

MnSCU is working on a data warehouse. It should contain payroll and accounting data by December 31, 1996.

2. MnSCU's statutory authority to administer state and federal funds outside the State Treasury is unclear.

MnSCU will work with the Attorney General to ensure that we have proper authority to administer financial aid funds outside the State Treasury. Since we need to print checks on campus, the current process of having the money in local bank accounts is an efficient process.

3. The technical colleges did not properly record the final transfer of fund balances in the statewide accounting system (MAPS), and some colleges did not properly deposit certain funds in the state treasury.

MnSCU system office will work with each technical college to ensure that the amount transferred to the state reconciles to their previous audit reports. This work will be done by November 30, 1996. Minneapolis and Northwest technical colleges have transferred the remaining balances to the state treasury.

4. Two colleges improperly purchased investments with funds that should have been deposited in the State Treasury.

St. Cloud and St. Paul technical colleges have liquidated investments and transferred the proceeds to the State Treasury.

5. Three colleges did not obtain the required collateral for local bank accounts.

These colleges have obtained the necessary collateral.

6. Lake Superior College changed the interest rate for lease payments without revising the lease agreement.

Lake Superior changed the interest rate on the loan after disagreements with the school district over the balance due. The college plans to continue making payments at the new interest rate.

7. The technical colleges included in our review did not determine the accuracy of the equipment inventory after the merger. These colleges did not establish an inventory system that properly accounts for equipment.

MnSCU has formed a user team to develop a new equipment inventory system. It will be integrated with the existing purchasing and accounting system to help ensure accuracy. The system office will work with institutions to develop regular procedures for taking physical counts of equipment. The new system is scheduled for production on September 1, 1997.

8. Six colleges have incomplete or inaccurate employee leave records.

Institutions will update leave records timely. We have added a leave reporting component to our personnel system to help track balances. Leave records will be updated by December 1, 1996.

9. Four colleges have an inadequate separation of duties over the personnel and payroll functions.

Dakota Technical College now has an independent person review the payroll certification report. Minneapolis Technical College has separated personnel and payroll duties. Other colleges will take actions to correct internal control weaknesses in this area.

10. Minneapolis Technical College has not resolved $11,541 in outstanding salary advances dating back to July 1995.

The college has collected the outstanding salary advances.

11. Eleven technical colleges did not reconcile tuition and fees to ensure that amounts were properly recorded.

MnSCU is planning a new student accounts receivable system that will correct this problem. The system will record receivable and receipts directly into the MnSCU accounting system eliminating the need for this reconciliation. The target date for implementation is July 1, 1997. The system office will work with the colleges to verify the amount of receipts until the new system is functional.

12. Several technical college campuses did not promptly deposit revenue according to state statute or promptly deposit into the state treasury account.

13. Twelve college campuses did not promptly record tuition and fee revenue on the accounting system.

Regarding findings 12 and 13, the student receivable system used by most technical colleges does not provide the information needed for state depositing. The difficulty with the system resulted in delayed depositing of receipts. The new MnSCU accounts receivable system will eliminate this problem. That system is scheduled for production in July 1, 1997. Until the system is ready, technical colleges will estimate the necessary information and periodically verify the accuracy of their estimates.

14. The technical colleges have granted tuition deferments without explicit authority.

MnSCU will write a policy stating the conditions for granting tuition deferments. The policy will be ready by January 31, 1997.

15. Fifteen campuses have not adequately separated duties over revenues.

The system office will work with campuses on developing adequate procedures for addressing internal control risks over receipts. This work will be completed by March 31, 1997.

16. The financial aid offices at ten campuses have unnecessary access to financial aid checks. One campus does not adequately safeguard financial aid checks.

The system office will work with campuses on developing adequate procedures for safeguarding financial aid checks. This work will be completed by March 31, 1997.

17. Three campuses have not established sufficient accounting records to monitor and manage cash by federal programs. Two campuses have not recorded financial aid transactions timely.

Institutions can use the MnSCU accounting system to obtain all information necessary for effective cash management. By December 1996, all institutions will record transactions into the accounting system in a timely manner.

18. Two campuses submitted inaccurate information on the monthly federal cash transactions reports.

St. Cloud technical college has corrected the federal report. Both St. Cloud and Minneapolis technical colleges will submit reports timely.

19. Two campuses' satisfactory academic progress policies did not meet federal guidelines.

Northwest technical college and St. Cloud technical college have amended their policies to meet federal guidelines.

20. Five campuses used state or local money to temporarily fund federal student financial aid programs.

These institutions will coincide their draw of federal funds with the disbursement of financial aid.

21. Minneapolis Technical College paid financial aid to an ineligible student.

The college will repay the federal and state accounts for the ineligible award. In addition, the college will work with the federal government to resolve the ineligible Stafford loan.

22. Northwest Technical College - Moorhead made unreasonable adjustments to the cost of attendance budgets used to award financial aid to two students.

Northwest has consolidated all financial aid offices for their five campuses. This office will base any professional judgments on student education criteria.

Sincerely,

Judith Eaton
Chancellor

Office of the Legislative Auditor
Centennial Office Building, Saint Paul, Minnesota 55155