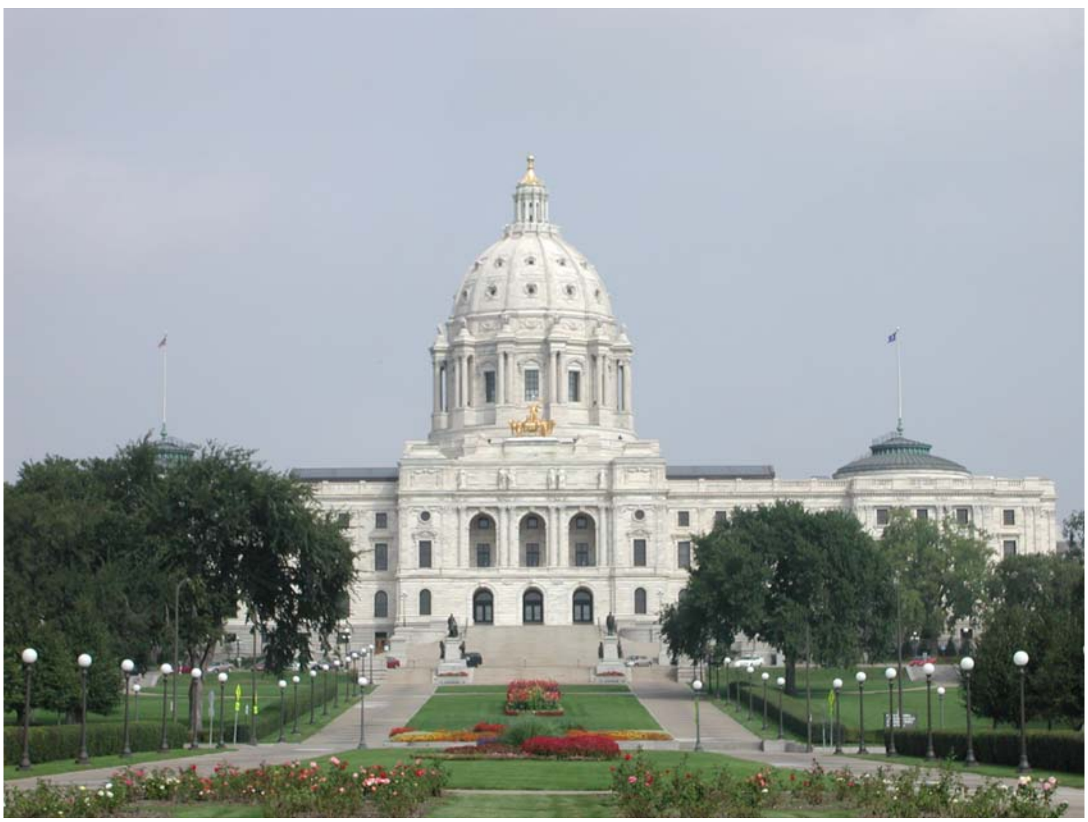
OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota State Colleges and Universities



SEPTEMBER 10, 2004 **04-37**

Financial Audit Division

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

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Board of Trustees
Minnesota State Colleges and Universities

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

We have audited selected areas at seven colleges of the Minnesota State Colleges and Universities (MnSCU). We audited St. Cloud Technical College and the following community colleges for the three years ended June 30, 2003: Hibbing, Inver Hills, and Riverland. We audited Central Lakes College, Itasca Community College, and Normandale Community College for the two years ended June 30, 2003. Our audit scope at each college was limited to computer system access, tuition and fee revenues, payroll, and administrative expenditures. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the seven colleges based on our contract with MnSCU to perform internal control and compliance audits of individual colleges and universities. We used various criteria to determine the colleges to audit, including the size and type of financial operations at each college, length of time since the last audit, changes in organizational structure and key personnel, extent of other audit coverage, and available audit resources. A key consideration impacting our decision was the extent of other audit coverage because 12 colleges and universities received separate financial statement audits in fiscal year 2003.

We conducted our audit in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of each institution's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate internal controls at the individual colleges.

The standards also require that we plan the audit to provide reasonable assurance that MnSCU complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

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

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 30, 2004

Report Signed On: September 7, 2004

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Central Lakes College:	
Thomas Donahue, CPA	Audit Manager
Michael Hassing, CPA	Auditor-in-Charge
Doreen Bragstad, CPA	Auditor
Hibbing Community College:	
Cecile Ferkul, CPA, CISA	Audit Manager
Tony Toscano	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor
Alan Sasse, CPA	Auditor
Inver Hills Community College:	
Jim Riebe, CPA	Audit Manager
Jack Hirschfeld, CPA	Auditor-in-Charge
Kathy Fisher, CPA	Auditor
Ching-Huei Chen, CPA	Auditor

Itasca Community College:	
David Poliseno, CPA, CISA	Audit Manager
Carl Otto, CPA, CISA	Auditor-in-Charge
Kathy Fisher, CPA	Auditor
John Hakes, CPA	Auditor
Normandale Community College:	
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Scott Tjomsland, CPA	Auditor-in-Charge
George Deden, CPA	Auditor
John Hakes, CPA	Auditor
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Riverland Community College:	
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Marisa Isenberg	Auditor
St. Cloud Technical College:	
Brad White, CPA, CISA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Steve Johnson, CPA	Auditor
Ellen Sibley, CPA	Auditor

Exit Conference

We discussed the results of the audit with the following staff of MnSCU at an exit conference on August 23, 2004. We also met with representatives of the individual colleges to discuss the audit results at the conclusion of our fieldwork.

Laura King	Vice Chancellor, Chief Financial Officer
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Financial Reporting Director
Denise Kirkeby	Financial Reporting Supervisor
John Asmussen	Executive Director, Internal Auditing
Paul Portz	Internal Auditing Coordinator

Report Summary

Overall Conclusions:

The colleges included in our audit scope properly safeguarded assets and correctly recorded financial activity in the MnSCU business systems. Financial transactions complied with significant policies and management's authorization. However, we identified a crosscutting computer system access finding and some isolated concerns related to internal controls at certain colleges.

Key Finding:

- Certain colleges need to ensure that access to MnSCU computerized business systems is secure and adequately restricted to authorized personnel. (Finding 1, page 5)

The audit report contained 9 audit findings relating to internal control or legal compliance issues. Some findings related to similar issues at multiple colleges. Other findings pertained to individual colleges. The report included one prior finding, related to security over business systems, that was not fully implemented at two colleges.

Audit Scope:

We audited the following colleges: Central Lakes, Hibbing, Inver Hills, Itasca, Normandale, Riverland, and St. Cloud Technical College.

Audit Period:
Two or three fiscal years ended June 30, 2003, depending on when the last audit of the college was completed.

Selected Audit Areas:
- Computer System Access
- Tuition and Fees
- Employee Payroll
- Administrative Expenditures

Agency Background:

The MnSCU Board of Trustees establishes policies for the 32 state universities and colleges. The board appoints a president to oversee the activities at the individual colleges. The colleges finance their operations from three main sources: state appropriations, tuition and fees, and federal grants. In fiscal year 2003, the seven colleges included in our scope accounted for approximately $168 million in operating revenues and state appropriations, and $164 million in operating expenditures, or about 13 percent and 12 percent, respectively, of MnSCU's total financial activity in those areas. In addition to our audit coverage, MnSCU contracts for annual audits of its consolidated financial statements and separate financial statement audits of several colleges and universities.

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Chapter 1. Introduction

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

The Office of the Chancellor is responsible for reviewing and coordinating educational programs, overseeing the credit transfer process, negotiating labor contracts, and coordinating system-wide financial operations. The office coordinates presidential searches, communicates with the public and the press about MnSCU, carries out policies of the Board of Trustees, and represents the colleges and universities at the Legislature.

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

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

All of the colleges use the MnSCU Integrated Statewide Record System (ISRS). ISRS consists of over 20 modules, including accounting, human resources, purchasing, student registration, and accounts receivable. The colleges use the accounting module to process and record financial transactions. The colleges use the State Colleges and Universities Personnel and Payroll System (SCUPPS) module for personnel transactions. SCUPPS interfaces with the state’s payroll system, SEMA4, for payroll processing.

Financial Operations

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

Once the college determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The colleges establish individual cost centers for each department or office to monitor their budget status. College management monitors projected versus actual student enrollment to ensure the college will receive sufficient tuition to support the spending budget. The college's overall financial activities are available in MnSCU's Annual Financial Report.

Table 1-1 provides some information on the individual campuses included in our audit scope.

Table 1-1
Individual College Information
Fiscal Year 2003

College	Student FYE	Staffing FTE	Total Operating Revenue/State Appropriations (1)	Total Operating Expenses
Central Lakes	2,571	289	$27,044,191	$28,247,133
Hibbing	1,414	168	16,977,116	17,329,319
Inver Hills	3,102	264	23,882,456	22,305,223
Itasca	972	115	10,742,345	11,856,492
Normandale	5,527	451	41,411,949	37,616,572
Riverland	2,513	263	23,825,309	23,613,310
St. Cloud Technical	2,631	254	23,818,800	22,536,429

Note 1: The financial information presented excludes non-operating revenues; capital appropriations are classified as non-operating revenues.

Source: Financial information obtained from the MnSCU Annual Financial Report for the year ended June 30, 2003, Statement of Revenues, Expenses, and Changes in Net Assets (unaudited) schedules.

Chapter 2. Computer System Access

Chapter Conclusions

The colleges' internal controls provided reasonable assurance that computer system access was generally controlled, although certain colleges still need to strengthen controls over selected system access.

Audit Objective

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

- Did the colleges' internal controls provide reasonable assurance that access to MnSCU's computerized information systems was adequately restricted and periodically monitored?

Background Information

All of the colleges use the MnSCU accounting system to process and record financial transactions. The MnSCU accounting system interfaces with the state's accounting system to generate warrants from the state treasury. The Office of the Chancellor also requires that all colleges use the MnSCU accounting system to account for money maintained outside of the state treasury. The colleges often administer these funds in local bank accounts. The main account serves as the state depository for transfer of funds into the state treasury. The colleges use the Minnesota State Colleges and Universities' State Colleges and Universities Personnel and Payroll System (SCUPPS) for personnel transactions. SCUPPS interfaces with the state's payroll system, SEMA4, for payroll processing.

The Office of the Chancellor and individual colleges have a shared responsibility to protect the integrity of MnSCU's critical business and personnel data. The Office of the Chancellor is responsible for developing and maintaining security controls for its business systems. Each college is responsible for determining the access needs of its employees who use the systems.

1. PRIOR FINDING PARTIALLY RESOLVED: Certain colleges did not ensure that computer security clearances to business systems were adequately restricted.

Generally, the colleges have made improvements to resolve some prior audit issues relating to computer system access. However, we have continued concerns at a number of colleges related to the risks associated with inappropriate system access, as discussed below. Without proper security controls, MnSCU is at risk for possible unauthorized access to critical business information systems or for fraudulent transactions to occur.

Minnesota State Colleges and Universities (MnSCU)

Two Hibbing Community College employees had a security profile in SCUPPS and SEMA4 that allowed them to perform both personnel and payroll functions. We discuss this issue in Chapter 4, Finding 6.

Inver Hills Community College did not adequately restrict or monitor access to its business systems. We found:

- Two employees had unnecessary access to adjust fees in the accounts receivable module.
- One employee had improper update access to bank account maintenance, the general ledger summary account, budget authority, and cost centers in the accounting module. This access resulted in an inadequate separation of duties. Another employee had unnecessary access in the accounting module to pay invoices.
- One employee, who needed only view access, had unnecessary update capability to the equipment maintenance module.
- Four employees had unnecessary access in the purchasing module. None of the employees needed this access to perform their job responsibilities.
- Three supervisory employees, responsible for managing the financial activity of the college, had access to most business systems. Because of their combined responsibilities, the college had established access to most business systems.

Riverland Community College had five employees who had unnecessary computer system access. One individual had unnecessary clearance to both payroll and human resources transactions. Four employees had unnecessary computer access because they accepted different jobs at the college; two employees had unnecessary access to the financial accounting module, and two employees had unnecessary access to the equipment module.

Without effective mitigating controls, employees with unnecessary or incompatible access to payroll and personnel systems could create fictitious employees and assignments in SCUPPS and process payments to those fictitious employees. Similarly, without mitigating controls unauthorized or improper payments for administrative expenses and unauthorized changes in accounts receivable balances may occur and not be detected in a timely manner.

Recommendations

- *Colleges should limit access to computer systems to ensure an adequate separation of duties and prevent unauthorized access to data. If restricted access is impractical, mitigating controls should be established.*
- *Colleges should periodically monitor security clearances to ensure that only authorized individuals have the level of access needed to perform their job responsibilities.*

Chapter 3. Tuition and Fees

Chapter Conclusions

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

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

Audit Objectives

Our audit of tuition and fees at the selected colleges focused on the following questions:

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

- For the items tested, did the institution comply, in all material respects, with the significant finance-related legal provisions concerning tuition?

Background Information

The individual colleges included in our scope offer a mix of credit based and noncredit based technical and career programs, as well as an undergraduate liberal arts curriculum. Table 3-1 shows the tuition and fee revenue collected by the colleges during fiscal year 2003.

All MnSCU colleges and universities use the Integrated Statewide Record System (ISRS) to record various student data and registration information. The accounting module in ISRS processes and records the receipt transactions associated with tuition and fees.

Table 3-1
Tuition and Fee Revenue by College
Fiscal Year 2003

College	Tuition and Fees [(1)]	Student Waivers [(1)]	Employee Waivers [(1)]
Central Lakes	$ 8,292,565	($118,068)	($ 46,942)
Hibbing	4,789,421	(25,152)	(24,685)
Inver Hills	10,436,582	(187,395)	(41,359)
Itasca	3,368,250	(41,736)	(14,216)
Normandale	18,155,758	(168,524)	(48,470)
Riverland	8,072,271	(32,841)	(32,127)
St. Cloud Technical	8,354,520	(10,326)	(26,006)
Total	$61,469,367	($584,042)	($233,805)

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

Source: MnSCU Accounting System Data FY2003 as of June 15, 2004.

2. Two colleges did not sufficiently document backdated registration cancellations.

Two colleges did not maintain supporting documentation for some backdated registration cancellations. The computerized accounts receivable application allows users to eliminate a student's tuition and fee charges by backdating registration cancellation records. MnSCU policy 5.12 (Refunds, Withdrawals, and Waivers) allows institutions discretion when canceling tuition charges. For example, a student is allowed to drop a class, without obligation, prior to the institution's established "drop date." Backdated transactions are high-risk because they allow the college to change students' registration data that affect accounts receivable balances. The transactions eliminate the student's obligation to pay tuition and reduce the amount earned by the college. Without sufficient documentation, we were unable to determine the validity of these transactions in the following cases.

- Central Lakes College did not have documentation to support the reason for the authorization to drop/add classes in 6 of 12 transactions tested. In some instances, the college dropped or added classes to a student's record electronically without recording the reason why the drop/add was done or who authorized the transaction. At times, a drop/add transaction was entered if the student registered for the wrong class or the wrong section of the class and the number of credits remained the same.

- Riverland Community College also did not maintain supporting documentation for some backdated registration cancellation transactions. For example, 10 of 14 backdated transactions we tested did not have supporting documentation. During fiscal year 2003, the college canceled approximately $321,000 in revenue through backdated registration transactions.

Recommendation

- *The colleges should ensure that backdated transactions to change student registration records are documented, authorized, and completed in a timely manner.*

3. Hibbing Community College did not execute contracts with its customized training customers.

Hibbing Community College did not enter into contracts with businesses for customized training services. The college provides customized training courses for businesses that are interested in training large numbers of employees. We tested six receipt transactions ranging from $10,700 to $27,900, which mainly involved mining companies. College personnel indicated that they attempted to negotiate contracts, but the mining companies were reluctant to sign them. Without properly executed contracts, the college increases the risks that the terms and conditions of its agreements cannot be enforced.

Recommendation

- *The college should execute customized training income agreements with its customers.*

4. Riverland Community College did not refer some past due accounts receivable to the Department of Revenue for collection as required by statute.

The college had not submitted to the Department of Revenue for collection approximately $12,000 in uncollectible accounts receivable from the Farm Business Management Program and the Small Business Management Program for the 2002-2003 academic year. Minn. Stat. Section 16D.04, subd.2 (b) states that when a debt becomes 121 days past due, the state agency must refer the debt to the Department of Revenue for collection. In addition, both MnSCU procedure 7.6.2 for accounts receivable management and the college's receivable management plan reinforce this requirement. The college does monitor the status of accounts receivables for the business management programs, however, it is not as aggressive in managing them as it is with other past due accounts.

Recommendation

- *The college should comply with the applicable legal requirements in managing uncollectible accounts receivables originating in the business management programs.*

5. Inver Hills, Itasca, and Riverland Community Colleges did not have written tuition waiver guidelines as required by MnSCU board policy.

Three colleges did not have written tuition waiver guidelines as required by MnSCU Board Policy 5.12, Part 2, Subpart C. The policy states that each college should define the terms under which any authorized tuition waivers will be granted. The policy allows college presidents or their designated staff to waive tuition amounts due to the college for a variety of reasons, such as benefits provided to employees in bargaining agreements, significant personal circumstances, and college errors. The policy requires the college to develop guidelines that are available to all students to implement this policy.

Recommendation

- *The colleges should develop written tuition waiver guidelines that are available to all students.*

Chapter 4. Employee Payroll

Chapter Conclusions

The colleges' internal controls generally provided reasonable assurance that payroll was accurately reported in the accounting records, and the colleges complied with applicable legal provisions and management's authorization. We identified certain internal control weaknesses over payroll at two colleges. We also identified some isolated immaterial overpayments and miscalculations of certain payroll transactions at St. Cloud Technical College and Normandale Community College. We discussed these discrepancies with the administration and personnel at the individual colleges.

Another issue that we discussed pertained to one college that did not remove leave balances recorded in SCUPPS when unclassified employees terminated employment. We referred this issue to financial reporting staff of the Office of the Chancellor. If other colleges and universities are not removing leave balances for unclassified employees, the accuracy of the compensated absence liability on MnSCU's financial statements could be impacted.

For the items tested, the colleges complied with material finance-related legal provisions governing payroll.

Audit Objectives

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

- Did the colleges' internal controls provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the institution comply, in all material respects, with the significant finance-related legal provisions concerning payroll?

Background Information

The colleges use the state's payroll system (SEMA4) to process payroll and MnSCU's State Colleges and Universities Personnel Payroll System (SCUPPS) to process personnel information. Table 4-1 shows the expenses for salary and fringe benefits for fiscal year 2003 for the colleges included in the audit scope. Payroll costs are the most significant operating costs for the colleges.

Table 4-1
Employee Payroll by College[1]
Fiscal Year 2003

College	Salaries	Fringe Benefits
Central Lakes	$13,462,427	$ 4,049,389
Hibbing	8,275,576	2,270,607
Inver Hills	13,151,830	3,488,890
Itasca	5,525,057	1,521,663
Normandale	21,891,552	5,867,721
Riverland	12,539,197	3,551,891
St. Cloud Tech	11,954,234	3,328,395
Total	$86,799,874	$24,078,555

Note (1): SubObject Type Codes per MnSCU Accounting Expenditure Files: Employee Salaries = 06; Employee Fringe Benefits = 07.
Source: MnSCU Accounting System Data FY2003 as of June 15, 2004.

6. Hibbing Community College did not adequately restrict access to the personnel and payroll systems and did not separate the payroll and personnel data entry and review functions.

Two college employees had a security profile in SCUPPS and SEMA4 that allowed them to perform both personnel and payroll functions. This level of access could result in fictitious employees being set up in the personnel system and paid from the payroll system.

In addition to incompatible access to the personnel and payroll systems, one college employee performs both the payroll data entry and review functions and a different employee enters and verifies personnel information. The payroll clerk collects employee timesheets and processes biweekly payroll transactions on the state's payroll system. The same clerk also reviews the payroll register report. A review of the payroll register, produced by the state's payroll system, verifies proper input of timesheet hours, pay rates, and special transactions.

Another staff person enters personnel information into SCUPPS and also verifies the resulting SCUPPS output reports. The personnel aid inputs employee information such as faculty assignments and pay information into SCUPPS. The aid then reviews the SCUPPS reports produced from her own data input. These data entry and review functions are incompatible. When the same person performs both of these functions, the risk of undetected errors or irregularities increases.

The computer system access weakness and lack of independent review of personnel and payroll processing reports result in increased risks because Hibbing processes payroll and/or personnel transactions for several other colleges including Fond du Lac, Itasca, and Rainy River.

Recommendation

- *The college should restrict employees from having update access to both the payroll and personnel systems and should have an independent person review payroll and personnel data entry.*

7. Normandale Community College did not generate and review a key report to verify that payroll assignment amounts and disbursement amounts agree.

The college did not generate and review the Pay Disbursement Summary Reports (HR4060) from the State Colleges and Universities Personnel/Payroll System (SCUPPS). The report compares assignment amounts to disbursement amounts and shows any differences. MnSCU recommends that institutions review the reports each pay period to verify that assignment and disbursement dollars agree. By not producing and reviewing the reports, the college increases risks that incorrect payments could occur and not be detected in a timely manner.

Recommendation

- *The college should generate and review the HR4060 reports from SCUPPS each pay period to verify that assignment and disbursement dollars agree.*

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Chapter 5. Administrative Expenditures

Chapter Conclusions

The colleges' internal controls provided reasonable assurance that administrative disbursement transactions were accurately recorded in the accounting records, and they complied with applicable legal provisions and management's authorization.

For the items tested, the colleges complied with the significant finance-related legal provisions concerning purchasing and administrative expenditures, except that Itasca Community College did not follow certain MnSCU contracting procedures.

Audit Objectives

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

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

- For the items tested, did the institution comply, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures?

Background Information

Each college's administrative and academic departments initiate purchase requests and submit them to the respective business office for processing. The colleges use the MnSCU Purchase Control System, a module within the MnSCU accounting system, to record and monitor purchasing transactions. MnSCU has established purchasing and contracting policies and procedures. Table 5-1 summarizes the material nonpayroll administrative expenditures during fiscal year 2003 for the colleges included in our audit scope. We determined our testing at each college based on the materiality of the types of administrative expenditures incurred. Generally, we excluded transactions related to financial aid and bookstore activity.

Table 5-1
Administrative Expenditures by College
Fiscal Year 2003

College	Purchased Services	Consultant/ Contract Services	Supplies	Land, Buildings, Equipment	Other Expenses
Central Lakes	$ 802,023	$ 759,339	$1,812,286	$ 651,064	$1,137,146
Hibbing	624,112	195,262	1,045,842	384,043	917,019
Inver Hills	752,979	880,665	1,353,992	314,426	843,089
Itasca	489,634	539,851	478,827	226,484	594,941
Normandale	1,161,352	817,892	1,457,811	320,321	1,244,235
Riverland	1,285,417	768,437	1,119,929	201,269	1,296,589
St. Cloud Technical	1,275,764	600,841	1,318,332	424,915	911,415
Total	$6,391,281	$4,562,287	$8,587,019	$2,522,522	$6,944,434

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

Source: MnSCU Accounting System Data FY2003 as of June 15, 2004.

8. Central Lakes College incorrectly coded various transactions in the state's accounting system.

The college coded various transactions in the accounting system with incorrect record dates and object codes. We identified incorrect record dates in 17 of 36 sample transactions. Record dates identify when the state incurred an obligation and should represent the date the college received the goods or services. This is a critical date for assessing year-end accruals for inclusion in financial statements. In addition, the college coded four transactions to an inappropriate object code. Object codes should accurately identify the nature of the expenditure. The college uses the accounting system to produce summary reports for budgetary planning and financial analysis. Incorrect coding of information would impact report totals and could have a potential impact on administrative decisions.

Recommendation

- *The college should ensure that all financial activity is accurately reported in the accounting system with the correct record dates and object codes.*

9. Itasca Community College did not follow the proper MnSCU contracting procedures.

Itasca Community College did not follow proper MnSCU contracting and bidding procedures or timely encumber funds for some contracts. The college did not provide sufficient public notification of its intent to contract or solicit sealed bids before obtaining temporary student housing in September 2002. Rather, the college contacted area hotels and then drew up a simple memorandum of understanding with a local hotel to provide the requested services. The cost of the services provided was $44,000. The college also did not follow proper bidding procedures for a $12,000 parking lot improvement project. In this instance, the college obtained just one verbal quote and did not prepare a contract for the work performed. In another case, the college did not execute a contract for grant-writing services prior to the services being performed.

MnSCU System Procedure 5.14.5 requires purchases estimated between $10,000 and $25,000, to be made either upon sealed bids or direct negotiation by obtaining two or more quotations for the purchase or sale when possible. If the amount of the purchase is estimated to exceed $25,000, the MnSCU procedure requires sealed bids to be solicited by public notice in the manner and subject to additional requirements of competitive bidding.

In addition to the competitive bidding concerns, the college encumbered funds for some projects after the work had been performed. Also, in some cases the college did not encumber sufficient funds. We noted that in 12 of 41 transactions tested that the college did not encumber funds until after it incurred the liability. Seven of these exceptions related to contracting and consulting services. MnSCU System Procedures for contracting and purchasing, 5.14.2, Part 4 and 5.14.5, Part 5, respectively, as well as Minn. Stat. Section 16A.15, require that funds must be encumbered prior to making an obligation. Without encumbering funds, the college increases the risk of incurring obligations that exceed its available funds.

Recommendations

- *The college should follow MnSCU contracting and procurement policies and procedures.*

- *The college should ensure that it encumbers sufficient funds before it incurs any obligation.*

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Status of Prior Audit Issues
As of June 30, 2004

Most Recent Audits

College Audits

Office of the Legislative Auditor Table 5-1 shows the most recent OLA audit report and period covered for the colleges included in the current audit scope. Generally, the scope included financial management, tuition and fees, customized training, payroll, bookstore operations, financial aid, and various administrative expenditures. As part of our current audit, we assessed the status of our prior audit recommendations for those issues related to computer system access, tuition and fees, payroll, and administrative expenditures. We did not follow up on other audit recommendations. MnSCU colleges fully or substantially implemented 15 of 18 prior audit recommendations. Riverland Community College, Inver Hills Community College, and Itasca Community College partially resolved issues related to computer system access. These issues have been carried forward in the current audit report as Finding 1.

Table 5-1
Status of OLA Prior Audit Recommendations
As of June 30, 2004

College	OLA Report	Scope	Audit Area	Issue	Status
Central Lakes	02-44	FY 1999-2001	Payroll	No Independent Verification of Output	Implemented
Hibbing	01-28	FY 1998-2000	Tuition	Security Access	Implemented
			Expenditures	Occurrence Dates	Implemented
			Expenditures	O/S purchase orders	Implemented
Inver Hills	01-49	FY 1998-2000	Fin Mgmt	Security Access	Part. Resolved
			Receipts	No Independent Review of Day Care Receipts	Implemented
Itasca	02-52	FY 1999-2001	Fin Mgmt	Insufficient Collateral	Implemented
			Fin Mgmt	Security Access	Implemented
			Fin Mgmt	Payroll clearing account	Implemented
			Tuition	Separation of Duties	Implemented
			Expenditures	Paid invoices early	Implemented
Normandale	02-56	FY 2000 - 2001	Tuition	Backdated Transactions	Implemented
			Payroll	Reconciliation of SCUPPS	Implemented
			Fin Mgmt	No prompt deposit	Implemented
Riverland	01-30	FY 1998-2000	Fin Mgmt	Security Access	Part. Resolved
			Expenditures	Occurrence Dates	Implemented
St. Cloud Tech	01-44	FY 1998-2000	Payroll	Faculty Leave	Implemented
			Payroll	Incorrect calculation of backpay, overload	Implemented

Source: Auditor prepared.

Minnesota State Colleges and Universities (MnSCU)

MnSCU System Audits

Legislative Audit Report 03-33, issued in June 2003, was an information technology audit that assessed the adequacy of selected general and application controls of the MnSCU SCUPPS system. This report did not have any specific findings related to the individual colleges.

Other Audit Coverage

The Office of the Chancellor contracts with certified public accounting firms to annually audit the MnSCU consolidated financial statements, several individual college and university financial statements, and to audit MnSCU's major federal programs in accordance with the Single Audit Act. The Office of the Chancellor and the individual colleges and universities received unqualified financial statement audit opinions for the years audited. As a part of the fiscal year 2003 audit, the external auditor of the consolidated financial statements issued a management letter to MnSCU's Board of Trustees. The letter contained five comments on accounting, administrative, and operating matters. The comments did not specifically mention any of the colleges included in our audit scope.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota
STATE COLLEGES
& UNIVERSITIES

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August 31, 2004

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

Dear Mr. Nobles,

The purpose of this letter is to respond to the recently released selected scope audits of seven colleges of the Minnesota State Colleges and Universities. The audit included two or three years of activity ending June 30,2003 at St Cloud Technical College, Hibbing Community and Technical College, Inver Hills Community College, Riverland Community College, Central Lakes College, Itasca Community College and Normandale Community College. The audit scope was limited to computer system access, tuition and fee revenues, payroll administration and administrative expenditures.

The leadership of the Minnesota State Colleges and Universities is very appreciative of the relationship that we have with your staff led by Ms Claudia Gudvangen, Deputy Legislative Auditor. With their assistance and counsel we have shaped a financial assurance program which includes engagement of three external audit firms in addition to your office. Full financial statements are prepared and audited by these firms for twelve individual colleges and universities in addition to a full audit of the overall Minnesota State Colleges and Universities. Nearly sixty percent of our revenues are thus individually audited at the school that earns them. The system audit covers all revenue and expense activity at all our colleges and universities. All of these audits have resulted in un-qualified opinions since the program began.

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

On behalf of the presidents and financial management staff at each of the colleges, please extend our appreciation to the audit managers and audit staff responsible for each of the above audits. The presidents and financial management staff at each of the colleges were very complimentary of the work performed by your staff and their knowledge of and respect for the services delivered by our schools to citizens across the state every day.

Attached please find specific responses to the audit findings.

/s/ Laura M. King

Laura M. King
Vice Chancellor – Chief Financial Officer

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

Minnesota State Colleges and Universities
Response to audit of seven colleges

Office of the Legislative Auditor
July 1, 2000-June 30, 2003

1. PRIOR FINDING PARTIALLY RESOLVED: Certain colleges did not ensure that computer security clearances to business systems were adequately restricted. We appreciate the auditor's observation that colleges have made improvements in this area. Our colleges and universities have devoted significant financial and human resources to development of individual college/university security plans and procedures. These plans and procedures are reviewed and updated regularly. The colleges cited in this finding have already taken steps to resolve the identified issues. In each case it was an instance of established procedures being overlooked.

2- 9. Findings two – nine address isolated instances of internal control weaknesses at one or several colleges. None of the findings represent a critical control weakness. Based upon the observation of your auditors we are satisfied that they represent individual events and not a larger, more systemic weakness that should be addressed. In all cases, we agree with the recommendation and are assisting the colleges in establishment of needed procedures.