This report presents the results of our selected scope financial internal control and compliance audit of Dakota County Technical College for fiscal years 2013, 2014, and 2015 through April 14, 2015. It contains seven findings and related recommendations to assist college management in improving business processes, controls, and accountability.

We conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing.

The results of the audit were discussed with college and system office leadership on July 31, 2015.

We appreciate the excellent cooperation and assistance that we received from college employees.

Audit Scope
We reviewed internal controls and compliance over the following activities for fiscal years 2013, 2014, and 2015 through April 14, 2015.

- Receipts: tuition and fees, and bookstore
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Personnel and payroll expenses
- Key financial reconciliations

Conclusion
Except for bookstore operations, the college generally had adequate internal controls and complied with policies, procedures, and finance-related legal requirements. The audit report contains seven findings.

Findings
1. The bookstore had significant internal control deficiencies and the college lacked adequate oversight of its bookstore operations. A fraud was discovered during the audit that resulted in the theft of some bookstore receipts.
2. The college had payroll-related errors including some that affected some employee’s pay.
3. The college had errors that resulted in some inaccurate employee leave balances.
4. The college did not adequately manage its equipment inventory records.
5. The college used backdated drops rather than waiver transactions to waive tuition and fees for some students.
6. The college did not routinely perform and document controls to mitigate the risks with several employees having incompatible ISRS access. In addition, system access was not always removed timely when it was no longer needed.
7. The business office’s cashiering area lacked some physical controls and customized training receipts collected at the college’s Eagan location were not sent to the business office and deposited timely.
Section I: Background

Dakota County Technical College (DCTC) offers associate degrees, diplomas and certificates in more than 50 academic programs. Student enrollment in the 2013-2014 academic year was 4,407 credit students and 3,964 non-credit/workforce training students. The college employs approximately 175 faculty members and 119 staff and administrators. Tim Wynes, became interim president on July 1, 2013, and was appointed president on June 17, 2015. Since July 1, 2010, Mr. Wynes has also been the president of Inver Hills Community College. The two colleges also share other administrative positions, including the chief financial officer (CFO), dean of customized training, and others. The two plan to begin sharing the chief human resources officer (CHRO) starting in August 2015. DCTC payroll is processed by Minneapolis Community and Technical College (MCTC).

Some college facilities are shared with Intermediate School District 917 that leases space under a joint powers agreement. The school district solely occupies 8.5% of the main campus building and shares another 1.9% with the college. The college is undergoing a major renovation project to its transportation and emerging technologies programs.

DCTC finances its operations primarily from state appropriations, tuition and fee revenues, and sales revenue from auxiliary enterprise operations that include its bookstore. The college’s allocation of state appropriations was $10.4 million, tuition and fees were $14.2 million, and sales totaled $2.5 million in fiscal year 2014. The largest expenses in fiscal year 2014 were salaries and benefits totaling $20 million followed by purchased services and supplies totaling $6.7 million. In fiscal year 2014, the college disbursed $4.4 million in federal student financial aid.\(^1\)

The college uses the MnSCU accounting system, one of many modules of the Integrated Student Record System (ISRS), to generate payments from the state treasury and account for money maintained outside of the state treasury in local bank accounts. Local bank accounts are used for student financial aid, student activities, and auxiliary operations.

DCTC’s last internal control and compliance audit was conducted by the Minnesota Office of the Legislative Auditor in 2009.

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\(^1\) The system office’s finance division provided DCTC’s fiscal year 2014 financial figures.
Section II: Audit Objectives, Scope, Methodology, and Conclusion

Audit Objectives
The objectives for this audit were to answer the following questions:

- Were internal controls adequate to ensure the college safeguarded receipts and other assets, properly paid vendors and employees in accordance with management’s authorization, produced reliable financial accounting information, and complied with finance-related legal requirements?

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

Audit Scope
Our audit reviewed the following activities for fiscal years 2013, 2014, and 2015 through April 14, 2015.

- Receipts: tuition and fees, and bookstore
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Personnel and payroll expenses
- Key financial reconciliations

Audit Methodology
We interviewed college staff and reviewed relevant documentation, including policies, procedures, or guidelines, and internal control documentation prepared for financial statement purposes to gain an understanding of the college’s internal controls. We considered risks of fraud and errors, and potential noncompliance with finance-related legal requirements. We analyzed accounting and human resources data. We reviewed employee computer system access to identify the transactions staff can initiate, approve, or process to determine whether access is based on need, and duties are adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether controls were effective and transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion
Except for bookstore operations, the college generally had adequate internal controls to ensure it safeguarded receipts and other assets, properly paid vendors and employees in accordance with management’s authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. For items tested, the college generally complied with MnSCU policies and finance-related legal provisions. We identified some control weaknesses and noncompliance as discussed in the following findings and recommendations.
Section III – Audit Findings and Recommendations

1. The bookstore had significant internal control deficiencies and the college lacked adequate oversight of its bookstore operations. A fraud was discovered during the audit that resulted in the theft of some bookstore receipts.

The bookstore had several significant internal control deficiencies. Of most significance, there was little oversight of bookstore operations, including sensitive transactions such as refunds and voids. While conducting the audit we identified some unusual refund transactions. As a result, we expanded our work and determined an investigation was warranted. We conducted the investigation and found over $9000 in bookstore receipts had been stolen and concealed by recording fraudulent refunds in the bookstores’ point-of-sale system.

Other bookstore activities lacked adequate internal controls and oversight.

- Duties were not adequately separated,
- Cashiers shared cash drawers and system logons,
- Book buyback activity, including the sale of college book inventory, had little to no oversight,
- Inventory was not accurately maintained, and
- Physical controls for securing receipts need improvement.

College operations that handle cash are inherently risky. Risks are compounded when there are very few bookstore employees. In such situations, the business office may need to implement its own bookstore oversight procedures to ensure receipts are properly collected and deposited.

Recommendations

- The college should complete a comprehensive risk assessment of its bookstore operation to determine what internal controls are appropriate, including oversight by the business office. Controls should be documented and employees should be trained so they understand their job responsibilities related to internal controls.
  - Sensitive transactions like refunds and voids should be scrutinized for appropriateness and documented.
  - Duties should be separated when practical and mitigating controls established when appropriate.
  - Cashiers should not share cash drawers or logons.
  - Book buyback activities should be controlled, including reconciling books purchased and sold to inventories, receipts and deposits.
  - Inventory records should be properly maintained.
  - Receipts should be properly secured.
2. The college had payroll-related errors including some that affected some employee’s pay.

The process for paying faculty is very complex and requires significant coordination between academics and human resources. The process includes two HR computer systems and complex bargaining agreements. The current faculty agreement, Minnesota State College Faculty (MSCF), applies to all DCTC faculty. At least for other agreements/contracts apply to all other employees at the college. The majority of the complexity and errors were related to faculty assignments and compensation.

The college made a variety of errors that impacted four employee’s pay.

- One faculty member was overpaid $300 for two days for faculty internship in fiscal year 2013. The faculty member was approved for 7 days; but was paid for 9 days based upon timesheets that paid a day’s rate whether it was a 4 hour or 8 hour day.
- One employee was overpaid $63 for overlapping on call and overtime hours claimed on one timesheet reviewed in fiscal year 2015.
- One AFSCME employee had $275 deposited in their health care saving account in error when payroll processed the severance pay using the hourly rate as of the date of the transaction rather than the rate as of the date of retirement. DCTC correctly calculated and provided MCTC the information and MCTC made the error.
- One faculty was underpaid $140 in severance when DCTC calculated it correctly, but provided MCTC the incorrect information. DCTC paid the employee the difference after being notified of this error during the audit.

In addition, based upon a review of the academic course information to faculty assignments in SCUPPS, the following had discrepancies that the college needs to further review to determine whether faculty were paid correctly:

- Two faculty had independent study assignments calculated using student counts that did not match the number enrolled on the instructor course load report.
- One faculty was paid based upon estimated contact hours, including overload. He had about 80 small courses during the academic year and another 40+ customized training courses in the summer. The college needs to review his assignments to determine if he exceeded the 27 average contact hours per the contract and adjust pay if needed.
- Some discrepancies were found in instructional type coding in the academic data, which could potentially affect the FAMA\textsuperscript{2} processes when used.

Several employee assignment and personnel coding errors were identified during the audit. Although the errors did not affect faculty pay, they may impact data analysis, reporting, and compliance with bargaining agreements. Additional details were shared with the college.

\textsuperscript{2} The system office has been leading a project called the Faculty Assignment Management Automation (FAMA) project. It should result in a fully-integrated, automated process that leverages ISRS course schedule information to build faculty assignments in SCUPPS, allowing for additional input of non-instructional work, bargaining agreement compliance and budget approvals along the way.
during the audit. Finally, the college needs to consider the eligibility of faculty for the grandparent clause related to prior employment in school districts, Article 16, Section 4 of the 2013-2015 MSCF agreement. The college should determine and document whether retiring faculty are eligible for this and document the choice made.

**Recommendations**

- The college should review the payments errors, collect any overpayments, and pay any underpayments as appropriate.

- The college should review the potential payment errors identified by comparing academic course information to SCUPPS assignment information and adjust pay as appropriate.

- The college should improve controls over severance calculations and payments by having a documented second review of calculations that include recalculating manual calculations, checking for contract compliance, and verifying the transactions are properly recorded in the payroll system.

- The college should perform additional analysis to determine whether other similar severance processing errors were made.

- The college should improve processes and documentation for assignments, including:
  - Academic and human resource staff should review faculty assignment forms for accuracy, including credit amounts per semester, math errors, or other unusual amounts.  
  - Using correct assignment codes.
  - Recording and updating academic course data.
  - Documenting the appropriate Dean’s review of faculty customized training assignments occurring on duty days.

- The college should remind supervisors of the need to review electronic timesheets, including non-regular hours reported, thoroughly for accuracy.

3. **The college had errors that resulted in some inaccurate employee leave balances.**

Accruing leave for faculty and some unclassified administrators can be a complex activity. The system (SCUPPS) calculates the personal and sick leave accruals based upon what is set up for assignments (codes, dates). The college is responsible for running accrual reports, reviewing amounts, and manually adjusting leave if needed.

The college made some errors that caused employee leave balances to be wrong.
• One faculty was not advanced 20 sick leave days when first hired as required by the MSCF contract.
• One faculty did not have 17.5 personal and sick leave days transferred to DCTC from another MnSCU college when the employee started in 2012. Subsequently, the employee may have had to take some unpaid leave unnecessarily.
• One faculty did not get 3 days of sick leave accruals for duty days worked outside of the academic duty days when their assignment was set up incorrectly in SCUPPS.
• Two faculty had manual accrual adjustments to sick leave in error.

**Recommendations**

• The college should resolve the leave errors identified during the audit.

• The college should implement procedures to ensure:
  – Newly hired employees are advanced leave when required by contract,
  – Newly hired employees have leave balances reestablished if appropriate when they have had other previous MnSCU employment,
  – Assignments are set up correctly so that the system can use that information to calculate the accrual for sick leave, and
  – Manual leave accrual adjustments are calculated correctly and comply with employment contracts.

4. **The college did not adequately manage its equipment inventory records.**

The college conducts an annual physical inventory of its equipment. To accomplish this, each department is requested to review a list of their equipment and confirm each item is in their possession, indicating its location, or identify any items that cannot be located. In some cases, the physical inventory is conducted by someone with responsibility for physical custody or authority to purchase equipment. Equipment details, including location and date of physical inventory, was not always properly recorded in MnSCU’s ISRS equipment module.

The purpose of physical inventories is to ensure equipment is accounted for and not lost or stolen. Once completed, ISRS should be updated to reflect any changes in the location, the date each piece of equipment was located, and if appropriate to remove any equipment that was disposed of, lost, or stolen. Good internal control practices, especially for smaller more sensitive pieces of equipment such as computers and laptops, would include having physical inventories completed by someone who does not have physical custody of the equipment. Similarly, they would not be completed by someone with purchasing authority or responsibility for maintaining inventory records.

Finally, although the college had processes to dispose of unneeded surplus equipment the associated documentation was not well organized or always complete.

**Recommendations**
• Some periodic physical inventories should be conducted by employees or others who are not responsible for the custody of the equipment.

• The college should implement procedures to ensure equipment disposal is complete and organized so it can be retrieved if necessary.

5. The college used backdated drops rather than waiver transactions to waive tuition and fees for some students.

The college used backdated drop transactions rather than waiver transactions to waive some student tuition and fees for medical reasons. Board policy 5.12 allows institutions to waive student tuition and fee amounts after the official “drop date” for a variety of reasons including death of a student, medical reasons, college error, and significant personal circumstances.

The college should record tuition and fee waivers as a waiver transaction in ISRS. A waiver transaction removes the charges but retains the course registration. A backdated drop transaction is when a drop date is entered after the “official drop” period but backdated using an earlier date. The transactions results in both the elimination of the tuition and fee charges and the course registration and course from the student’s academic record. Board policy does not address backdated drop transactions.

Recommendation

• As required by board policy, the college should use waivers rather than the backdated drop transactions to remove a student's tuition and fees for approved and vetted reasons.

6. The college did not routinely perform and document controls to mitigate the risks with several employees having incompatible ISRS access. In addition, system access was not always removed timely when it was no longer needed.

The college had four business office employees with a variety of ISRS security roles that allowed them to enter incompatible transactions. Examples of incompatible access included cashing functions that also had the ability to adjust accounts receivable balances, correct receipts, issue refunds, or enter journal vouchers. In these examples, cash could be stolen and hidden. Although the college had designed mitigating controls, the controls were not being performed routinely nor documented.

In addition, ISRS system access was not removed timely for five individuals. Three former employees, one former student, and an external auditor continued to have ISRS access after it was no longer needed. With the exception of one former employee’s access, the others were limited to view or read only access.
Eliminating incompatible duties is preferred because it prevents errors, unauthorized transactions, and fraud from occurring. However, preventative controls are not always possible. Therefore, the college needs strong mitigating controls when it cannot separate duties. Finally, system access should be removed when employees leave the college or change job duties.

**Recommendations**

- The college should implement effective mitigating controls when it is unable to adequately separate incompatible duties. The college should document controls; the transactions reviewed, by whom, and when; and periodically verify the controls are working as expected.

- The college should remove system access timely when employees leave the college, change jobs duties, or otherwise no longer need access.

7. The business office’s cashing area lacked some physical controls and customized training receipts collected at the college’s Eagan location were not sent to the business office and deposited timely.

During the review of the business office’s cashing area we identified a number of internal control deficiencies and recommendations to improve physical security controls. We have shared these recommendations with the college.

In addition, some customized training receipts are not deposited timely. Customized training receipts collected at the college’s Eagan location did not get sent to the business office on the main campus and deposited timely. The receipts are often held until after the class starts.

**Recommendation**

- The college should improve physical security controls in its business office cashing area.

- The college should direct all receipting/cash handling, other than auxiliary services, to the business office.

- The college should implement procedures to ensure receipts collected in its Eagan office are deposited timely.
Section IV – Management’s Response

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August 26, 2015

Minnesota State Colleges and Universities
Members of the
Board of Trustees
Chancellor Steven J Rosenstone
Ms. Beth Buse, Executive Director, Internal Auditing
30 7th St. E. Suite 350
St. Paul, MN 55101-7804

Dear Chancellor Rosenstone, Trustees and Ms. Buse:

Thank you for the opportunity to review and provide responses to the results of the Dakota County Technical College Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2013, 2014, and 2015 through April 14, 2015.

We welcome the opportunity to improve our financial operations based upon the findings noted in the audit. Except for the bookstore operations, we are pleased the college generally had adequate internal controls and compliance with policies, procedures, and finance related legal requirements.

We are also appreciative of the professionalism shown by Ms. Buse and her staff from the Office of Internal Auditing in working with us to review our financial operations.

The following are DCTC’s responses with our plan to resolve each finding:

1. The bookstore had significant internal control deficiencies and the college lacked adequate oversight of its bookstore operations. A fraud was discovered during the audit that resulted in the theft of some bookstore receipts.

DCTC agrees with this finding. Management has taken the appropriate action with those involved in the theft of bookstore receipts. Steps are in place to recover the funds taken from the bookstore.

The vice president for finance and operations will complete a comprehensive risk assessment of our bookstore operation. We will review internal controls for appropriateness for each employee. Controls will be documented and training provided.

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2. The college had payroll-related errors including some that affected employee's pay.

DCTC agrees with this finding. The college's human resource office has already reviewed and corrected the errors for each employee noted. Steps are taking place to collect any overpayment issued to an employee.

The chief human resource officer will review and make improvement where necessary regarding the control over the calculation of the severance payments. This process will include assurance of accuracy of all past severance calculations for the time period identified in this audit scope.

A notice will be sent to DCTC supervisors to remind them the importance of their timely and accurate review of the electronic timesheets for the employees they supervise.

3. The college had errors that resulted in some inaccurate employee leave balances.

DCTC agrees with this finding. The human resource office has already made the correction to the errors identified in the audit report.

The chief human resource officer, along with her staff will review the current procedures regarding leave accruals and make adjustments accordingly. The procedure will be compliant with all bargaining unit contracts.

4. The college did not adequately manage its equipment inventory records.

DCTC agrees with this finding. The college has routinely performed a physical inventory of its equipment. Procedures will be changed to ensure a periodic review will be conducted by employees who are not responsible for the custody of the equipment, assurance that obsolete equipment is properly disposed, and a timely recording of all equipment detail is maintained in the MnSCU's ISRS equipment module.

5. The college used backdated drops rather than waiver transaction to waive tuition and fees for some students.

DCTC agrees with this finding. The college will follow the board policy to use the waiver rather than the backdated drop transaction to remove a student's tuition and fees for approved and vetted reasons.
6. The college did not routinely perform and document controls to mitigate the risks with several employees having incompatible ISRS access. In addition, system access was not always removed timely when it was no longer needed.

DCTC agrees with this finding. Incompatible ISRS security roles for business office employees has been corrected. The college will document the process when mitigating controls are unable to adequately separate incompatible duties because of the few number of employees in a work area. Also, the employee separation checklist will be modified to incorporate the proper notification to our information technology department the removal of the ISRS access.

7. The business office’s cashiering area lacked some physical controls and customized training receipts collected at the college’s Eagan location were not sent to the business office and deposited timely.

DCTC agrees with this finding. The business office will make the necessary physical changes in order to improve the security controls of our cashiering area. The college will also implement procedures to ensure all off-campus receipt locations following timely deposits of their funds to the business office.

Sincerely,

\[Signature\]

Tim Wynes, J.D.
President

Cc: Ms. Suzie Brusoe, CHRO
    Mr. Steve Atkins, Accounting Supervisor Sr.
    Mr. Scott Erickson, VP of Finance