

Minneapolis Community & Technical College

Internal Control and Compliance Audit

Office of Internal Auditing
April 22, 2015



Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2015-03

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Members of the MnSCU Board of Trustees
Chancellor Steven J. Rosenstone
Interim President Avelino Mills-Novoa

This report presents the results of our selected scope financial internal control and compliance audit of Minneapolis Community & Technical College for fiscal years 2013, 2014, and 2015 through November 30, 2014. It contains 7 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 March 23, 2015.

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

Beth Buse, CPA, CIA, CISA
Executive Director

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2013, 2014, and 2015 through November 30, 2014.

- Receipts (tuition, fees, parking and bookstore)
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Employee payroll
- Bookstore inventory balances

Conclusion

The college generally had adequate internal controls. For the items tested, the college generally complied with policies, procedures, and finance-related legal requirements. The audit report contains 7 findings.

Findings

1. The college had errors that resulted in three faculty members being overpaid and other errors that did not impact pay.
2. The college needs to improve its processes over staff and faculty leave.
3. The college did not have some controls to ensure receipts were safeguarded in the business office, bookstore, and parking ramp operation.
4. The college did not have a process to review waivers for accuracy.
5. The college did not adequately manage its asset inventory records.
6. The college did not obtain proper approval for two purchases that exceeded \$100,000.
7. Computer access was not removed timely for two employees who left the college.

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The audit was performed by Craig Fautsch, Marita Hickman and Indra Mohabir

Section I: Background

Minneapolis Community and Technical College (MCTC) offers associate degrees, diplomas and certificates. The top five programs by declared major are: liberal arts, business management, information technology, education and child development, and human services. Student enrollment in fiscal year 2014 was 13,495 (unduplicated headcount credit students). 27% were first-generation college students. Approximately 72% of the students received financial aid. The average age of students is 28 years old. The college employs approximately 502 faculty members and 397 staff.

The college recently celebrated its 100th anniversary of providing educational opportunities. Dr. Avelino Mills-Novoa became the interim President in June, 2014. Dr. Mills-Novoa succeeded Phil Davis who had served as president since 1998 and was appointed the associate vice chancellor serving as the managing director of the Minnesota State Colleges and Universities Campus Service Cooperative (CSC).

The last internal control and compliance audit at MCTC was conducted by the Minnesota Office of the Legislative Auditor in 2002. The college had annual financial statement audits for fiscal years 2003 through 2013. The college received unmodified or “clean” financial statement opinions on each of its financial statement audits. Due to a change in the system’s financial statement audit plan, the college did not obtain a separate financial statement audit in fiscal year 2014. Instead, the college was part of the larger systemwide financial statement audit.

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 November 30, 2014.

- Receipts: tuition and fees, bookstore, and parking
- Employee business expense reimbursements
- Procurement, disbursement, and equipment inventory
- Employee payroll
- Bookstore inventory balances

The college provides payroll services for several colleges and one university and bank reconciliation services for three colleges, our review only focused on the payroll and bank reconciliation processes for MCTC.

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

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. However, we identified some control weaknesses as discussed in the following findings and recommendations.

For items tested, the college generally complied with MnSCU policies and finance-related legal provisions. However, it did not comply with some MnSCU requirements as discussed in the following findings and recommendations.

Section III – Audit Findings and Recommendations

1. The college had errors that resulted in three faculty members being overpaid and other errors that did not impact 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 MCTC faculty. However, some of its provisions differ for faculty that were previously part of the Minnesota Community College Faculty Association (MCCFA) or United Technical Educators (UTCE) agreements that were last effective from 1999 through 2001.

The college made a variety of errors, some impacting employee pay and others that did not. A combination of errors resulted in three faculty members being overpaid \$35,193.

- One faculty member was overpaid \$27,095 in severance payments in fiscal year 2013. The employee's sick leave balance liquidation was properly entered into MnSCU's human resource system (SCUPPS), but entered twice in the state of Minnesota's payroll system (SEMA4) resulting in a duplicate payment. In addition, the employee's early retirement incentive payment was inaccurately entered into SEMA4. Of the overpayments, approximately \$14,000 went into the employee's health care savings account and nearly \$9,000, after taxes, was paid directly to the employee. The college did not have a second review of severance payment calculations and amounts. The system office reviews and approves the early retirement incentives, but the approved amount was not entered accurately into the human resource and payment system. There were payroll reports that would have revealed the overpayment error if they had been reviewed more thoroughly.
- One faculty member was overpaid \$4,530 due to four separate errors. In fiscal year 2013, the employee was overpaid a total of 4 overload credits; 5 credits due to the faculty appointment form showing 20 credits for fall semester instead of 15 and 1 less credit due to under crediting some lab credits. In fiscal year 2013, the employee was underpaid due to under crediting some lab credits, and finally in fiscal year 2015, he was overpaid when a repayment amount did not include the bargaining agreement's retro calculation.
- One faculty was overpaid \$3,568 in fiscal year 2013 due to three separate errors. The employee was paid based on 19.2 estimated credits instead of 17 actual credits taught. The employee was also underpaid for an internship supervision assignment when the credit was not properly rounded up to 2 credits and also underpaid for several credit by examination activities.

Finally, several employee assignment and personnel coding errors were identified during the audit. Although the errors did not impact faculty pay, they may impact data analysis, reporting, and compliance with bargaining agreements. For example, the college was not

correctly setting up the primary assignment for some faculty who were in the former Minnesota Community College Faculty Association (MCCFA) agreement as required by the current Minnesota State College Faculty (MSCF) agreement; it was incorrectly recording some severance payments in a single fiscal year when the bargaining agreement required they be split into two fiscal years; and it did not have documented approval for exceeding the 40% overload limitation. Examples of other errors include incorrect assignment codes and dates, and assignment documentation that did not agree with what was entered into the SCUPPS.

Recommendations

- *The college should collect the overpayments from the faculty members.*
- *The college should perform additional analysis to determine whether similar pay errors were made for other faculty.*
- *The college should improve controls over severance calculations and payments by:*
 - *having a documented second review of severance calculations that includes recalculating manual calculations, checking for contract compliance, and verifying the transactions are properly recorded in the payroll system, and*
 - *modifying the form used for calculating and entering severance to include dates and signoffs (initials/signatures) of when the amount was entered into the computer system and modified to reflect the different severances payments possible.*
- *The college should review payroll reports more thoroughly for errors.¹*
- *Academic and human resource staff should review faculty assignment forms for accuracy, including credit amounts per semester, math errors, or other unusual amounts.²*
- *The college should ensure it is compliant with the MSCF contract, including properly setting up primary assignments for teaching faculty in the former MCCFA bargaining unit, paying severance in the correct fiscal years, and getting approval for the 40% overload limit.*
- *The college should improve processes and documentation for assignments, including:*

¹ There is an outstanding finding from the 2012 State University Personnel and Payroll Internal Control and Compliance Audit that the system office should work with institutions to develop exception reports that would identify transactions that merit further review by payroll and HR staff rather than relying on institutions to review all transactions (Finding 7 on page 9 of the report.)

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.

- *Using correct codes and dates. The college should consider revising the assignment forms to include dates of activities.*
- *Having good documentation of assignments, which matches the SCUPPS assignments, including revised assignment forms, when necessary.*

2. The college needs to improve its processes over staff and faculty leave.

The college had a variety of issues related to leave balances. It had not processed leave accruals for faculty who taught during the 2014 summer session; faculty should have accrued between one and three days of sick leave. Also, an employee was not advanced vacation leave days when first hired as required by the Personnel Plan for Administrators and a faculty member did not accrue a personal leave day due to a timing issue with a leave request and accrual process. Finally, some leave requests for unclassified employees were not approved timely and some leave balances were not reduced when leave balances were liquidated to pay severance when employees left the college.

Recommendations

- *The college should process faculty leave accruals in a timely manner.*
- *The college should advance newly hired employee's leave when required by contract.*
- *The college should monitor employee leave requests and follow up on those that are not being approved by supervisors timely.*
- *The college should reduce leave balances when liquidated to pay an employee severance.*

3. The college did not have some controls to ensure receipts were safeguarded in the business services office, bookstore, and parking ramp operation.

The college business services office collects receipts, such as tuition and fees, directly from students. Other supplemental receipts are collected elsewhere, including the bookstore and parking ramp. These receipts are delivered to the business office daily to be reconciled and deposited. The college had some control weaknesses in each of these three areas.

Business Office

About 100 people had access to the area of the business office where cashiers collect receipts and receipts are stored in a safe. The safe is left unlocked throughout much of the day. In addition, cash drawers are left unlocked when cashier's take breaks and when they are placed in the safe. Finally, parking receipts are delivered and dropped off in the cashier's area in unlocked bags. The area does, however, have a security camera.

Parking

The college operates a parking ramp located across the street from the main building. There is an office on the first floor of the ramp that has a drive through type window from which parking ramp staff can monitor the entrance lanes, make change if needed, and resolve credit card, prepaid card, or other entrance issues. While most of the employees and students utilize prepaid parking, there are machines at each of the lanes that accept credit cards or cash.

The three parking ramp employees share the same cash drawers as well as the same account and password used to log onto and record transactions in the parking system. Several employees, without a need, have access to the parking office safes where receipts are stored.

Bookstore

Individual cashier accountability could be improved in the bookstore. Although cashiers are required to log on and off the point of sale (POS) system when appropriate, multiple cashiers may share the same cash drawer. In addition, void transactions and corresponding void slips were not always reviewed and signed by someone other than the cashier who processed the transaction. Finally, cashiers did not count the money in the cash drawers at the end of their shifts or put receipts in a sealed bag prior to placing receipts in the safe. Requiring cashiers to be responsible for a specific cash register drawer and its contents, and having someone review sensitive transactions like voids, not only provides more individual accountability for any cash shortages, but also helps to protect cashiers.

Recommendations

- *The college should strengthen controls over receipts collected at the business services office.*
 - *Limit the number of individuals with key card access to the cashier/safe areas.*
 - *Keep the safe locked throughout the day and limit safe access to employees based on their job functions.*
 - *Transfer funds from the bookstore and parking office in locked bags and place the funds immediately in the locked safe.*
 - *Require cashiers to lock cash drawers when not in use and keep keys in a separate location.*

- *The college should strengthen controls over receipts collected at the parking ramp.*
 - *Require employees to be accountable for their own cash drawers and prohibit the sharing of accounts and passwords.*
 - *Record all receipts into the parking system.*
 - *Limit the number of individuals with keys that access the vault and safes by restricting access to only those with a functional need.*
 - *Perform a cost/benefit analysis of the lost revenue versus paying for an attendant to operate the parking ramp Saturday evening through Sunday.*

- *The college should strengthen controls and individual accountability over bookstore receipts.*
 - *Have separate cash drawers for each cashier when practical.*
 - *Have cashiers count both beginning and ending amounts in their cash drawer.*
 - *Require an independent person to review and approve risky transactions like voids.*
 - *Require cashiers to place their daily receipts (cash, checks and coins) in a sealed or locked bag before placing them into the safe.*
 - *The college should review and, if needed, revise its internal policy related to bookstore cash controls.*

4. The college did not have a process to review waivers for accuracy.

The college did not review employee and student waiver calculations for accuracy. Board policy allows the college to waive tuition and fee charges for students in particular cases and for employees if eligible per the relevant bargaining agreement. Waivers must be manually calculated and entered into ISRS making them more error prone. Without an independent review, errors or irregularities may go undetected. We identified a tuition and fee waiver that the college inaccurately calculated for one student. The student should have received \$195 more than what was calculated.

Recommendations

- *The college should have an independent review of waiver transactions to ensure they are done correctly.*

5. The college did not adequately manage its asset inventory records.

The college did not adequately manage its asset inventory records. The college's business office performed periodic physical inventory for all assets except those that are information technology-related such as computers and laptops. The information technology department maintains a list of computer-related equipment, however, it does not complete periodic physical inventories or update the ISRS equipment module as required. The college's inventory records included a large quantity of computers with old inventory dates such as 2008 and 2009. In addition, several assets over \$10,000 had not been inventoried for over a year and several assets related to the former air traffic control program that had been disposed of were still in the inventory records.

The purpose of physical inventories is to ensure equipment is accounted for and not lost or stolen. Once completed, ISRS is 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 or lost and 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 other than the individuals with access to the equipment.

MnSCU System Procedure 7.3.6 Capital Assets requires the college to complete an annual physical inventory of all assets with an acquisition cost or value of \$10,000 or greater and a physical inventory no less than every three years for all other assets maintained in the ISRS module.

Recommendations

- *The college should implement controls to ensure periodic physical inventories are completed, documented, and records are updated in ISRS in compliance with MnSCU system procedure for all applicable assets.*

6. The college did not obtain proper approval for two purchases that exceeded \$100,000.

System procedure 5.14.5 requires written approval by the vice chancellor-chief financial officer for any purchase that will exceed \$100,000. College staff misinterpreted the procedure and thought it did not apply when the items being purchased were to be resold or were recurring purchases. During the review, we identified two textbook purchases and one equipment purchase that exceeded \$100,000 without proper approval.

Recommendations

- *The college should ensure it obtains proper approval for any purchases exceeding \$100,000.*
- *The system office should review system procedure 5.14.5 to determine if revisions are needed to allow some purchases that exceed \$100,000 without approval by the vice chancellor-chief financial officer, such as items for resale or recurring purchases like utilities.*

7. Computer access was not removed timely for two employees who left the college.

Computer system access for two human resource employees was not removed timely when they left the college. They left the college in July and August 2014, however, access had not been removed when we reviewed it in December 2014.

Recommendation

- *Computer system access should be removed timely when employees leave the college or change jobs duties.*

Section IV – Management’s Response

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April 16, 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 Minneapolis Community and Technical College (MCTC) Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2013, 2014 and 2015.

As an organization that strives to embody the ideals of transparency and accountability, we welcome opportunities such as this to assess and improve our internal controls. We are pleased that the outcome of this engagement was that MCTC had adequate internal controls. The College gained significant benefit from hosting this activity. MCTC administration would advocate that we partner to bring about a more frequent review of our internal controls so as to better diminish risk to the institution and further stimulate compliance at the operational level of our institution.

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

The following are MCTC's responses with our plans to resolve them:

1. The college had errors that resulted in three faculty members being overpaid and other errors that did not impact pay.

MCTC conducted an additional audit of 51 faculty assignments for fiscal years 2013, 2014, and 2015 by reviewing the course schedules, faculty appointment forms and corresponding entries into SCUPPS. No occurrences of overpayments were found.

In addition, the College completed a review of all severance payment processed in fiscal years 2013, 2014, and 2015 (39 payments). There were no other occurrences of overpayments.

Regarding the overpayments found as a result of the Internal Control and Compliance Audit, the College is taking steps to collect the overpayments in accordance with the statewide policy and procedure set forth in Minnesota Management and Budget Personnel Memo #1354.

Minneapolis Community and Technical College will not discriminate against any person because of race, sex, color, creed, religion, age, national origin, disability, marital status, status with regard to public assistance, sexual orientation, gender identity, gender expression, familial status, or membership or activity in a local commission.

MCTC prohibits sexual harassment and sexual violence.

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2. The college needs to improve its processes over staff and faculty leave.

The College has incorporated the recommendations into an annual calendar of recurring tasks and deadlines. Payroll will monitor the employee leave requests and follow up on those that are pending with the appropriate supervisors. This will occur biweekly (Thursdays of payroll off-week) in conjunction with the manual leave accrual update process.

3. The college did not have some controls to ensure receipts were safeguarded in the business services office, bookstore, and parking ramp operation.

Minneapolis Community and Technical College agrees with this finding.

Administration recognizes the merit in further restricting access to the safe and will modify current practices to increase security by reviewing the list of employees with physical access to the area and locking the door of the safe room.

The parking ramp supervisor will create separate logins for employees for cash drawers. Employee access to the safe room will be reviewed and restricted only to those who have a clear business need.

The Vice President of Finance and Operations, Director of Finance and Director of Auxiliary Services will continue to review bookstore practices to determine where cashier accountability can be accentuated.

The bookstore will work to implement stronger controls around the processing of voided transactions and will work with the business office to develop a quality assurance step.

4. The college did not have a process to review waivers for accuracy.

Minneapolis Community and Technical College agrees with this finding.

As recommended by its external auditors in prior years, business office staff had gravitated to the use of materiality thresholds in assessing transactional risk. Waivers were monitored monthly for variability but were not routinely reviewed for accuracy. The Director of Finance and Accounting Supervisor will implement an independent annual review of the College's waivers to verify accuracy and ensure sound judgment is being exercised by the process owner.

5. The college did not adequately manage its asset inventory records.

Minneapolis Community and Technical College agrees with this finding.

The College's purchasing manager left the position just prior to the beginning of this engagement and some transactional detail was not updated accordingly in ISRS before the staffing change took place. The Director of Finance and Accounting Supervisor agree that there needs to be improved oversight over this aspect of the College's finances and have moved to utilize technology to do so. The College's business office and ITS departments have also partnered to pioneer the electronic tracking of computers on campus and have worked with the Office of Internal Audit to systematize this for the future. By doing so, institutions across the Minnesota State Colleges and Universities could benefit from significant savings in time and effort dedicated to this task.

6. The college did not obtain proper approval for two purchases that exceeded \$100,000.

Minneapolis Community and Technical College partially agrees with this finding.

Whenever a standard purchase by the College exceeds \$100,000, business office staff are instructed to obtain approval from the vice chancellor-chief financial officer. The Director of Finance and Accounting Supervisor will engage with staff to remind them to remain vigilant in all such transactions.

The College does not believe that staff misinterpreted procedure 5.14.5 so much as relevant guidance wasn't made available regarding retail purchases in light of system office policy 7.3.2, which states that "Each institution shall develop procedures to govern the operation of its auxiliary enterprises." As this topic has spurred a system wide discussion, we disagree that College personnel handled this in an unsatisfactory way. In previous conversations with system office staff, it was suggested that we incorporate our retail delegations into our auxiliaries' five year business plan and the College moved to do so. We look forward to the discussion that will ensue from this and its resulting clarity.

7. Computer access was not removed timely for two employees who left the college.

Minneapolis Community and Technical College partially agrees with this finding.

The College Separation Checklist has been modified to incorporate an additional task to notify the Information Technology department of the removal of access of ISRS and/or Uniface appropriately. Steps have been implemented to ensure account management to be effective.

Sincerely,



Avelino Mills-Novoa, Ph.D.
Interim President

cc: Mr. Scott Erickson, Vice President for Finance and Operation
Mr. Chris Rau, Director of Finance
Ms. Laura King, Vice Chancellor for Finance and Operation