Hennepin Technical College

Internal Control and Compliance Audit

Office of Internal Auditing

June 8, 2016

Minnesota State Colleges & Universities

Reference Number 2016-07

Report Classification: Public

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Minnesota STATE COLLEGES & UNIVERSITIES

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Dear Members of the MnSCU Board of Trustees,
Chancellor Steven J. Rosenstone, and
President Merrill Irving,

This report presents the results of our selected scope financial internal control and compliance audit of Hennepin Technical College for fiscal years 2014, 2015 and 2016 through February 29, 2016. It contains six 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 May 31, 2016.

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

Eric Wion

Eric Wion, CPA, CISA, CISSP
Interim Executive Director

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The audit was performed by Craig Fautsch, Marita Hickman, and Kim McLaughlin

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2014, 2015 and 2016 through February 29, 2016.

- Tuition and fee receipts
- Employee business expense reimbursements
- Purchases, disbursements, and equipment inventory
- Personnel and payroll expenses
- Key financial reconciliations

Conclusion

The college generally had adequate internal controls and complied with MnSCU policies and finance-related legal requirements. We identified some control weaknesses and noncompliance. The audit report contains six findings and recommendations to improve controls.

Findings

1. The college did not accrue sick leave for faculty one term and it made some other leave-related errors.
2. The college did not adequately manage its ISRS equipment inventory records.
3. Some college employees lacked adequate delegated authority for approving vendor payments, some payments lacked documented approvals, and the college made a large overpayment.
4. The college did not comply with board policy when it assessed 23 students a personal property fee to pay for a lab kit they never received.
5. The college practice of waiving the Minnesota State College Student Association (MSCSA) fee when waiving other student charges did not comply with board policy.
6. The college did not adequately restrict some employee's computer system access.

Section I: Background

Hennepin Technical College (HTC) has two campuses located in Brooklyn Park and Eden Prairie and is the largest stand-alone technical college in Minnesota. The college offers associates degrees, certificates, and diplomas in over 45 career and technical programs. Its largest programs are in automotive technology, information technology, law enforcement, machine trades, and practical nursing. Student enrollment in 2014-15 was 3926 full year equivalents. For fiscal year 2015, the college had over 400 employee full time equivalents. Dr. Merrill Irving began as president in July 2015. [1]

HTC finances its operations primarily from state appropriations, tuition and fee revenues, and sales revenue from auxiliary enterprise operations that include its two bookstores. The college's allocation of state appropriations was $20.9 million, tuition and fees were $22.5 million, and sales totaled $2.6 million in fiscal year 2015. The largest expenses in fiscal year 2015 were salaries and benefits totaling $34 million followed by purchased services and supplies totaling $6.2 million. In fiscal year 2015, the college disbursed $10.5 million in federal student financial aid.[2]

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.

The college's last internal control and compliance audit was conducted in 2004 by the Minnesota Office of the Legislative Auditor. It had individual audited financial statements in fiscal years 2002 through 2013. Starting in fiscal year 2014, the college was audited as part of MnSCU's annual system-wide financial statement audit.

[1] Extracted from Minnesota State Colleges and Universities Information Technology Services Reporting and Data Services – Enrollment Reporting.
[2] The system office's finance division provided the college's fiscal year 2015 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 2014, 2015 and 2016 through February 29, 2016.

- Tuition and fee receipts
- Employee business expense reimbursements
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Audit Methodology

We interviewed college staff and reviewed relevant documentation, including policies, procedures, 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 was based on need, and duties were 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. 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 six findings and recommendations.

Section III – Audit Findings and Recommendations

1. The college did not accrue sick leave for faculty one term and it made some other leave-related errors.

Faculty did not accrue sick leave for one term and other leave-related errors were identified.

- The college did not run the 2015 summer accrual report in update mode. As a result, faculty did not get their summer sick leave accruals.

- One faculty member was only advanced 10 sick leave days when hired as a permanent unlimited faculty in 2015. According to the Minnesota State College Faculty (MSCF) plan, 20 days of sick leave should have been advanced when hired.

- One employee, who had a temporary appointment of less than six months, erroneously accrued leave. The employee did not use any leave and it was removed at the end of the appointment. According to the Personnel Plan for MnSCU Administrators, administrators employed pursuant to a temporary appointment for six months or less and who have no other employment with the System immediately preceding or contemporaneous with the temporary appointment are not eligible to accrue annual leave.

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 each employee's assignments. The college is responsible for running accrual reports, reviewing amounts, and manually adjusting leave if needed.

Recommendations

- *The college should implement procedures to ensure it accrues leave correctly and timely, and it advances leave to newly hired employees when required.*

- *The college should resolve the leave errors identified during the audit.*

2. The college did not adequately manage its ISRS equipment inventory records.

The college did not adequately manage its equipment inventory records.

- Some equipment had not been inventoried timely. Our sample of 16 items for testing included equipment over $10,000 and sensitive items such as computers and firearms. Each of items selected, had not been inventoried within the timelines established in board policy. One of the computers had last been inventoried in 2003. Board Policy 7.3.6, Capital Assets, requires assets over $10,000 be inventoried annually and assets under $10,000, including sensitive items, be inventoried no less than every three years.

- Employees who performed physical inventories also had responsibility for their custody.

- Inventory records were not always updated timely after the college disposed of computer equipment. We tested 16 items listed in the college's current asset listing and found that nine of the items had been disposed of, but continued to remain on the asset listing. Eight of the nine items were computers and the remaining item was digital camera.

- Some equipment acquisitions were not recorded in ISRS timely. For example, the college had not recorded 14 pieces of equipment, valued at $31,000, it acquired in June of 2013. In addition, it had not recorded 3 pieces of equipment, valued at $75,000, acquired in the past year. Of the 17 items, 16 were computers. In each case, the financial disbursement differed from the purchase order. When this occurs, the items are flagged in ISRS and must be reviewed to determine the proper amount to record as the value for each piece of equipment.

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 who does not have physical custody of the equipment.

Recommendations

- *The college should implement procedures to ensure physical equipment inventories are conducted by employees or others who are not responsible for the custody of the equipment.*

- *The college should ensure physical equipment inventories are completed timely and ISRS is properly updated.*

- *The college should ensure equipment disposal procedures are followed and ISRS is properly updated to record disposals.*

- *The college should review the Fixed Asset Reconciliation Report on a timely basis and ensure any items are researched and recorded accurately in ISRS.*

3. Some college employees lacked adequate delegated authority for approving vendor payments, some payments lacked documented approvals, and the college made one large overpayment.

Some employees approved purchases and payments that exceeded their delegated authority amounts. Five of twenty payments tested were for amounts that exceeded the approver's delegated authority by amounts that ranged from $13,000 to over $70,000. The college maintained a spreadsheet of delegation of authority levels; however, it was not always used to verify employees had adequate delegated authority.

The approval to pay invoices was not always documented. Three of twenty payments tested did not have a documented approver.

Finally, the college erroneously paid a vendor the full amount it estimated to repair water damage to the building before the work had been completed. In September 2013, it paid $562,139 rather than $34,805 that had been approved on the invoice. Instead of refunding the overpayment, the vendor retained the full amount as it continued to perform the work. In the end, the vendor disputed the amount and did not return nearly $39,000 that the college's insurance company said was not earned. As of April 2015, the college had not been successful in recovering the funds.

Recommendations

- *The college should ensure invoices have been properly reviewed and approved before making the payment and employee's that approve payments have the appropriate delegation of authority.*

- *The college should work with General Counsel to help recover the $39,000 overpayment.*

4. The college did not comply with board policy when it assessed 23 students a personal property fee to pay for a lab kit they never received.

After following the college's process for requesting and approving a personal property fee, it began in the spring term of 2016 charging a $90 personal property fee for a biology class. The purpose of the fee was to pay for a lab kit each student would be given and used in the class. The college did not purchase or provide the kits to the 23 students who were charged the fee.

According to Board Policy 5.11, Tuition and Fees, and its companion System Procedure 5.11.1, personal property charges are authorized by the Board and adopted at campus discretion with the president's approval. It is property retained by the student and it has value outside of the classroom such as tools, books, materials, and supplies.

Recommendations

- *The college should refund personal property fees to students who paid them but never received the items that were to be purchased using the fees.*

- *The college should implement procedures to ensure students receive the items the college was to purchase using the personal property fees it collected.*

5. The college practice of waiving the Minnesota State College Student Association (MSCSA) fee when waiving other student charges did not comply with board policy.

Prior to January 2016, the college's practice was to waive the MSCSA fee when waiving other tuition and fee charges for eligible students. Board Policy 5.12 allows tuition and fee waivers for reasons such as a student's death, medical reasons, or significant personal situations. The policy, however, states, "The college or university cannot waive the MSUSA or MSCSA student association fee." The MSCSA fee for the 2015-16 school year was $.35 per credit hour. Although eligible students had the student association fee waived, the college used its own funds to pay the waived fee to the student association.

Recommendations

- *The system office and board of trustees should consider revising board policy 5.12 if it is an acceptable practice for colleges and universities to pay the student association fees themselves rather than students when a student qualifies for a tuition and fee waiver.*

6. The college did not adequately restrict some employee's computer system access.

The college did not adequately restrict some computer system access. Some employees had access they did not need while others had incompatible access without effective mitigating or detective controls.

<u>Unnecessary Access</u>

Nine employees had access to the ISRS accounts receivable module that was not necessary to perform their job responsibilities. They had update access to screens used for a variety of things such as charge generation, short-term loans, and student demographics.

ISRS access was not removed promptly when four employees ended employment at the college. Two of the four left employment over a year ago while the other two were more recent. Access was limited to view only for all but one employee.

<u>Incompatible Access</u>

Several employees were given ISRS access that allowed them to perform incompatible duties. Four employees had incompatible ISRS system access related to tuition and fees functions without adequate compensating controls. Each employee had cashiering related functions combined with the ability to reduce cash receipts or accounts receivable balances by entering transactions such as receipt corrections, student tuition waivers, and accounts receivable corrections, adjustments, or write-offs.

The college identified the incompatible access and required employees to obtain authorization before entering certain transactions. ISRS does not have the functionality to enforce the requirement. Therefore, detective controls or after-the-fact monitoring is necessary to ensure transactions are identified and reviewed for accuracy and authorization. The college did not implement detective controls to address the risks associated with the four employees having incompatible access.

Three other employees had incompatible access in ISRS. It was determined the access was no longer required and their access was modified to no longer have the conflicting access.

Separating incompatible duties is preferred because it prevents errors, unauthorized transactions, and fraud from occurring and going undetected. The college should review the incompatible access and eliminate it as much as possible. For the remaining incompatible duties, the college needs strong detective controls, after-the-fact monitoring. In addition to designing and implementing these detective controls, which includes who does what and when, the college should monitor to ensure control procedures are being completed as intended.

Recommendations

- *The college should implement procedures to ensure ISRS system access is removed or modified timely when an employee changes jobs within the college, goes on an extended leave, or ends employment.*

- *The college should evaluate whether incompatible access can be removed. If it is not practical, effective detective control should be established and monitored to ensure they are performed and that proper documentation is retained.*

- *The college should ensure the annual ISRS access recertification is completed accurately.*

Section V – Management's Response

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June 9, 2016

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

Dear Chancellor Rosenstone, Trustees and Mr. Wion:

Thank you for the opportunity to review and provide responses to the results of the Hennepin Technical College Internal Control and Compliance Audit that was conducted for the time period covering fiscal 2014, 2015, and 2016 through February 29, 2016.

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

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

The following are the findings detailed in the audit report and our responses to resolve them:

1. **The college did not accrue sick leave for faculty one term and it made some other leave-related errors.**

   The college concurs with the finding. The human resource office has already resolved the leave errors identified during the audit. The chief human resource officer, along with her staff, will review the current procedures regarding leave accruals and make adjustments accordingly.

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

   The college concurs with the finding. The college has made efforts to complete the physical equipment inventory and it is clear additional work is needed in executing procedures established by the college. Procedures will be established to ensure physical equipment inventories are conducted by employees or others who are not responsible for the custody of the equipment. The procedures will also ensure equipment is disposed and recorded properly, recorded timely, and the Fixed Asset Reconciliation Report is reconciled on a timely basis.

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3. **Some college employees lacked adequate delegated authority for approving vendor payments, some payments lacked documented approvals, and the college made one large overpayment.**

The college concurs with the finding. The college leadership will discuss with appropriate staff the procedures for approving payments and required documentation for payments.
The college will work with General Counsel to help recover the $39,000 disputed payment to the vendor.

4. **The college did not comply with board policy when it assessed 23 students a personal property fee to pay for a lab kit they never received.**

The college concurs with the finding. The property fee has been refunded to the 23 students. Procedures have been put in place of the personal property fees and to have the fees approved and communicated to college staff.

5. **The college practice of waiving the Minnesota State College Student Association (MSCSA) fee when waiving other student charges did not comply with board policy.**

The college concurs with the finding for part of the period being audited. Starting in January 2016 the college is complying with board policy and will continue to comply until a revision is made with board policy.

6. **The college did not adequately restrict some employee's computer system access.**

The college concurs with the finding. Incompatible computer system access for employees have been corrected. When it is not practical to separate duties, the college will document the process for mitigating controls and monitor them on a regular basis. Also, the employee separation checklist will be modified to incorporate the proper notification to our information technology department and business office for the removal of the ISRS access.

Sincerely,

Merrill L. Irving Jr.

Merrill L. Irving, Jr., Ed.D.
President

Cc: Ms. Sharon Mohr, Chief Human Resources Officer
Mr. Ron Beckstrom, Director of Finance
Mr. Craig Erickson, Vice President of Finance and Operations