January 18, 2017

Office of Internal Auditing

Minnesota State Community and Technical College

Internal Control and Compliance Audit

Reference Number 2017-01

Report Classification: Public

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St. Paul, MN 55101

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January 18, 2017

Dear Members of the Minnesota State Board of Trustees,
Chancellor Steven J. Rosenstone, and
President Peggy Kennedy

This report presents the results of our selected scope financial internal control and compliance audit of Minnesota State Community and Technical College for fiscal years 2014, 2015, and 2016 through April 30, 2016. It contains seven findings and related recommendations to assist college management in improving business processes, controls, and accountability.

The results of the audit were discussed with college and system office leadership on December 15, 2016.

The audit was conducted by Carolyn Gabel, Marita Hickman, Craig Fautsch, and Kim McLaughlin in conformance with the International Standards for the Professional Practice of Internal Auditing.

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

Sincerely,

David J. Pyland

Dave Pyland, CPA
Executive Director

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Report Summary

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2014, 2015, and 2016 through April 30, 2016.

- Tuition and fee receipts
- Bookstore 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 Minnesota State policies and finance-related legal requirements. We identified some control weaknesses and noncompliance.

Findings

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

2. The college made a few payroll and leave-related errors and did not obtain approval for one employee's work assignments.

3. The college did not adequately manage some aspects of its ISRS equipment inventory records.

4. Employee's delegation of authority letters did not specify their authorized dollar amount for payment approval and several letters were not signed by the individual authorizing the delegation.

5. The college did not have adequate controls to ensure some receipts were adequately safeguarded.

6. The college did not complete required "16A forms."

7. The college did not prepare a multi-year operating plan for its bookstore operations as required.

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Background

Minnesota State Community and Technical College (M State) has four campuses located in Detroit Lakes, Fergus Falls, Moorhead, and Wadena. It has more than 70 career and liberal arts programs. Its largest programs include liberal arts, nursing, business, electrical line worker, and dental hygiene. Student enrollment in fiscal year 2016 was 4,319 full year equivalents. For fiscal year 2016, the college had over 400 employee full time equivalents.[1] Dr. Peggy Kennedy was named president of M State in May 2012 after serving as interim president since 2011.

M State finances its operations primarily from state appropriations, tuition and fee revenues, and sales revenue from auxiliary enterprise operations that included its four bookstores. The college's allocation of state appropriations was $22.1 million, tuition and fees were $23.9 million, and sales totaled $4.6 million in fiscal year 2016. The largest expenses in fiscal year 2016 were salaries and benefits totaling $34.9 million followed by purchased services and supplies totaling $9.6 million. In fiscal year 2016, the college disbursed $9.1 million in federal student financial aid.[2]

The college uses the Minnesota State 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 audits were conducted in 1999 and 2000 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 Minnesota State's annual system-wide financial statement audit.

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[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 2016 financial figures.

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 current internal controls and the following activities for fiscal years 2014, 2015, and 2016 through April 30, 2016.

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

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 Minnesota State policies and finance-related legal provisions. We identified some control weaknesses and noncompliance as discussed in the following seven findings and recommendations.

Audit Findings and Recommendations

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

The college did not remove employee's ISRS access timely.

- Access was not removed timely after two employees separated employment.
- Nine employees had update access to the accounts receivable module that was not needed for their current job responsibilities.
- Three employees had the ability to process employee business expense reimbursements that was not needed for their current job responsibilities.
- One employee had update access to the personnel module (SCUPPS) that was not needed for the employee's current job responsibilities.

Some employees had system access that allowed them to perform incompatible duties and the college had not implemented mitigating controls.

- Seven bookstore employees had physical custody of receipts and the ability in the point-of-sale system to process returns, voids, cancellations, and price overrides. The college had an independent review process for some, but not all, of these more risky transactions.
- Ten employees had ISRS access to record receipts combined with the ability to reduce cash receipts or accounts receivable balances by processing transactions such as receipt corrections, student tuition waivers, accounts receivable corrections and adjustments, or deferments. Although the college identified the incompatible access and required employees to obtain authorization before entering risky transactions, they did not have detective controls in place to identify transactions that had not been approved.

Eliminating incompatible system access is preferred over the implementation of detective controls because it reduces the likelihood of errors or irregularities occurring and going undetected. However, when duties cannot be separated, effective detective controls are needed. Effective detective controls should also include monitoring activities to ensure control procedures are being performed as intended.

Recommendations

- *The college should implement procedures to ensure ISRS and other 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 employee's incompatible access can be removed. If it is not practical, effective detective controls should be established and monitored to ensure they are performed and proper documentation is retained.*

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

2. **The college made payroll and leave-related errors and did not obtain approval for one employee's work assignments.**

The college made the following payroll and leave errors:

- A customized training faculty member was overpaid $450 because of the duplicate submission and processing of a bi-weekly paper timesheet.

- One employee was not advanced vacation leave hours upon initial hire as required by the Minnesota Association of Professional Employees (MAPE) contract.

- In order to work around a processing issue in the eTime system, a classified AFSCME employee submitted a request for 16 hours of overtime in lieu of 16 hours of sick leave. Although the employee was paid the proper amount, their sick leave balance was overstated not adjusted until after it was identified during the audit.

In addition, the college did not obtain approval for exceeding the contractual overload limitation for one faculty's work assignments.

Recommendation

- *The college should improve controls to ensure it complies with bargaining agreement provisions, properly processes paper timesheets, advances new employees leave when required, and properly approves faculty overload.*

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3. The college did not adequately manage some aspects of its ISRS equipment inventory records.

The college did not adequately manage some aspects of its equipment inventory records. Specifically, it did not conduct physical inventories of some computer equipment at two campuses every three years as required by System Procedure 7.3.6. In addition, it did not always remove computer equipment timely after it was disposed. ISRS inventory lists contained many items with very old physical inventory dates that are assumed to have likely been disposed of. The college maintained a separate inventory system outside of ISRS for IT equipment and it appeared more accurate than ISRS.

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, lost, or stolen. Finally, ISRS should be updated timely when items are disposed of, as it is the official record.

Recommendation

- *The college should implement procedures to ensure physical equipment inventories are conducted timely at all four campuses and ISRS equipment records are updated timely for disposals.*

4. Employee's delegation of authority letters did not specify their authorized dollar amount for payment approval and several letters were not signed by the individual authorizing the delegation.

The college did not specify the levels of spending authority on employee's delegation of authority letters for procurement-related and other transactions. In addition, 6 of 13 letters reviewed were not signed by the individual delegating authority.

An employee's authority is not clear when delegated authority letters do not have documented dollar limits or signatures. Also, delegation of authority letters are maintained by the assistant to the president in Fergus Falls while purchasing related functions are mostly performed in Wadena making it difficult for the employees in Wadena to know who has delegated authority and for what amounts.

Recommendations

- *The college should ensure delegation of authority letters specify dollar amounts and are signed by the individual delegating duties.*

- *The college should explore ways to make it simpler for employees to lookup and determine current delegations.*

5. The college did not have adequate controls to ensure some receipts were adequately safeguarded.

During the review of the cashiering areas, a number of internal control deficiencies and recommendations to improve physical security controls were identified. These recommendations were shared with the college.

In addition, we noted the following:

- Cashiers shared point-of-sale system logons and cash drawers. Requiring cashiers to log on and off their cash sessions and maintain separate cash drawers provides accountability for transactions and cash shortages.

- Bookstore starting cash and change funds were counted at the end of the day but not at the start. In addition, unannounced counts of the bookstore starting cash were not conducted. Cash counts are a basic control for ensuring the proper administration of the starting cash and for uncovering irregularities.

Recommendations

- *The college should improve physical security controls in its bookstores. In addition, it should:*
  - *require cashiers to log on and off the bookstore point-of-sale system when appropriate, maintain separate cash drawers when practical, and*
  - *perform and document daily counts of cash drawer starting cash and change funds.*

6. The college did not complete required "16A forms."

The college had not been preparing 16A forms when it incurred obligations without first encumbering funds. Minnesota State Procedure 5.14.5 Purchasing requires funds to be encumbered in the accounting system prior to incurring an obligation or expense to ensure sufficient funds are available. The college is required to complete a form, referred to as a 16A form, when funds are not properly encumbered.

Recommendation

- *The college should ensure it encumbers funds prior to incurring a financial obligation. If funds are not properly encumbered, it should ensure it completes 16A forms, as required.*

7. The college did not prepare a multi-year operating plan for its bookstore operations as required.

The college indicated it has monitored year-to-year revenue and cash balances but has not been preparing multi-year financial plans for its bookstore operations. Minnesota State Procedure 7.3.2 Auxiliary Operations requires institutions to maintain a written multi-year financial plan for its auxiliary services. Multi-year plans are to include mission, goals, objectives, time frames for goals, forecasting of future performance, and plans should be monitored and adjusted as needed.

Recommendation

- *The college should develop and maintain a written multi-year operating plan for its bookstore and other auxiliary operations in accordance with Minnesota State procedure 7.3.2 and related guideline.*

Management's Response

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January 9, 2017

Minnesota State
Members of the Board of Trustees
Chancellor Steven Rosenstone
Mr. David Pyland, Executive Director, Internal Auditing
30 7th Street East, Suite 350
St. Paul, Minnesota 55101

Dear MN State Board of Trustees, Chancellor Rosenstone, and Mr. Pyland:

Thank you for the opportunity to review and provide responses to the results of the Minnesota State Community and Technical College Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2014- 2015, and 2016 through April 30, 2016.

The compliance audit was very useful to us to be able to identify the internal controls that are strong and also those that we need to improve upon. We welcome the opportunity to improve our financial operations based upon the findings noted in the audit. We are pleased that the audit found the college generally had adequate internal controls and complied with Minnesota State policies and finance-related legal requirements.

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

Finding 1:
The college did not adequately restrict some employee's computer system access.

We concur with this finding. The college has reviewed and removed access to former employees and has removed incompatible rights where possible. The college will make every effort to avoid authorizing incompatible rights and when not practical will ensure that those transactions are reviewed through closely monitored mitigating controls.

The human resources department will ensure that supervisors use the Employee Exit Checklist which calls for elimination of all rights within the ISRS system. The college will also incorporate a process to ensure when employees transition between positions within the college or duties of an employee changes, that rights are adjusted accordingly. The ISRS rights approval managers will be reminded to be diligent when recertifying the rights annually to ensure the employees rights are needed.

Finding 2:
The college made a few payroll and leave-related errors and did not obtain approval for one employee's work assignments.

We concur with this finding. The items within this finding have been corrected. The college will communicate to staff the importance of reviewing all payroll transactions to ensure payments are accurate and warranted.

The human resources department will ensure leave advances for new employee leave occurs when required by bargaining agreements and will ensure faculty overload is approved as required by labor contract.

Finding 3:
The college did not adequately manage some aspects of its ISRS equipment inventory records.

We concur with this finding. The college has policies and procedures that call for a complete physical inventory of fixed assets at least once every three years. The college will review the procedures with employees to ensure it is followed and inventory is completed in a timely manner.

The college does use a secondary database to track all IT equipment which is to be reconciled to the ISRS system on an ongoing basis. The internal controls will be updated to ensure that all adjustments to the secondary database are updated in ISRS on a timely basis and the procedure will be included in our year end checklist.

Finding 4:
Employee's delegation of authority letters did not specify their authorized dollar amount for payment approval and several letters were not signed by the individual authorizing the delegation.

We concur with this finding. The college used our purchasing procedure to limit the dollar amount of procurement-related transactions. In response to this finding, we are in the process of updating our delegation of authority documents which will specify the authorized dollar amount for procurement and finance related transactions. In addition, we will be developing a shared folder where the delegations will be housed so that they are easily accessible to our accounts payable staff who can then verify payment limits. The college is also adjusting our procedures which will include a tracking component to ensure all delegation of authority forms are signed and returned to the President's office.

Finding 5:
The college did not have adequate controls to ensure some receipts were adequately safeguarded.

We concur with this finding. The college will remind cashiers that they are not allowed to share point-of-sale logons, include work-study students. Cashiering occurs in our bookstores and currently we do not feel it is practical to have independent cash drawers for each employee because of the size of those operations. We will continue to review the practice to ensure the receipts are safeguarded.

Internal controls will be updated to ensure that the bookstore starting cash is counted when the store is opened at the beginning of the day. In addition, unannounced cash counts will be performed on a regular basis.

Finding 6:
The college did not complete required "16A" forms.

We concur with this finding. The college has updated our procedure, forms, and communication flow to ensure that employees who violate the 16A statute are notified and trained on the proper procurement and contracting procedures. The procedure will include a methodology for recording each 16A which will allow us to monitor repeat behavior and work with employees to correct issues.

Finding 7:
The college did not prepare a multi-year operating plan for its bookstore operations as required.

We concur with this finding. The college has been vigilant in monitoring bookstore operations to ensure sustainability into the future. However, no formal written plan has been developed. A formal multi-year operating plan will be completed for each of our campus bookstores and monitored on an annual basis.

We appreciate the professionalism shown by Executive Director Pyland, Deputy Director Wion, and their entire staff of auditors while our financial operations were reviewed. You can be assured that we have taken action to correct the findings and incorporated the recommendations already. Please contact me or Mr. Pat Nordick, the College CFO, if you have any additional questions or comments.

Sincerely,

Peggy Kennedy

Dr. Peggy D. Kennedy
President, Minnesota State Community and Technical College

Cc: Mr. Pat Nordick, Chief Financial Officer
Mr. Allen Behr, Director of Business Services
Ms. Dacia Johnson, Chief Human Resources Officer
Ms. Laura King, Vice Chancellor of Finance and Chief Financial Officer