OLA
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Audit Report

Northland Community and Technical College

Three Fiscal Years Ended June 30, 1999

JUNE 22, 2000 **00-28**

Financial Audit Division

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

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State of Minnesota • James Nobles, Legislative Auditor

Report Summary

Audit Report

Northland Community and Technical College
Three Fiscal Years Ended June 30, 1999

Northland made significant improvement in its internal control structure since the prior audit. The college substantially implemented many of the 18 prior audit recommendations. However, the college needs to resolve several issues.

Key Findings and Recommendations:

- Northland did not reconcile financial activity recorded on the MnSCU Accounting System to the state's accounting system (MAPS) on a periodic basis and did not prepare adjusting entries following the completed reconciliation. We recommended that the college perform timely reconciliations and complete the reconciling adjustments on a periodic basis to correct any differences between accounting systems. (Finding 1, page 5)
- Collateral for the college's bank accounts was not always sufficient to satisfy statutory requirements. Northland's bank statements showed that bank balances approached $1 million during peak enrollment periods, while the amount of collateral and FDIC insurance maintained by Northland only totaled $400,000. We recommended that the collateral level be increased during peak enrollment periods to properly safeguard assets. (Finding 2, page 6)
- Northland transferred $98,000 of bookstore funds to provide cash flow assistance for the Minnesota Job Skills Project. The college's bookstore policy limits the use of bookstore profits to projects that benefit the general student population. We recommended that the college repay the bookstore account $98,000. (Finding 6, page 17)

Agency Response:

In its response, Northland Community and Technical College agreed with the report's recommendations and is taking corrective action to resolve the issues.

Agency Background:

Northland Community and Technical College (Northland) is part of the Minnesota State Colleges and Universities System (MnSCU). Dr. Orley Gunderson has been the president of Northland since July 1995. Northland provides more than 21 academic programs for both technical and liberal arts education. The average full-year equivalent enrollment per semester was approximately 1,284 in fiscal year 1999.

Our audit scope included a review of financial management, tuition and fees, payroll, selected administrative expenditure areas, and bookstore operations for the period July 1, 1996, through December 31, 1999. We also examined the administration of student financial aid programs for fiscal year 2000.

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Ken Vandermeer, CPA, CFE	Auditor-In-Charge
Steve Johnson, CPA	Auditor
Gena Hoffman	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Northland Community and Technical College and the MnSCU System Office at the exit conference held on June 5, 2000:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Financial Reporting Director
John Asmussen	Executive Director of Internal Auditing
Deb Winter	Director of Campus Accounting
Tamara Billings	Audit Coordinator
Andrew Boss	MnSCU Board of Trustees
Northland Community and Technical College:	
Orley Gunderson	President
Dennis Paesler	Business Manager

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Orley D. Gunderson, President
Northland Community and Technical College

We have audited selected areas of Northland Community and Technical College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope for that period included financial management, tuition and fees, payroll, administrative expenditures, and bookstore operations. We also reviewed the university's internal controls over compliance with federal student financial aid for fiscal year 2000.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Northland Community and Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the university is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission, the management of Northland Community and Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 22, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 31, 2000

Report Signed On: June 16, 2000

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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Chapter 1. Introduction

Northland Community and Technical College (Northland) is part of the Minnesota State Colleges and Universities (MnSCU) system. Northland provides more than 21 academic programs for both technical and liberal arts education. Its mission is to serve the broad educational needs of the people of the region and others who are attracted to its various programs. Northland's average full-year equivalent enrollment per semester was approximately 1,284 in fiscal year 1999. Dr. Orley Gunderson has been the president of Northland since July 1995.

The college has five operating divisions: Academic Affairs, Student Services, Finance and Operations, Building and Ground Maintenance, and Custom Training and Management. The Finance and Operations Division is responsible for the financial affairs of the college and includes the business office, purchasing section, bookstore, and the personnel office.

The college finances its operations primarily from state appropriations and student tuition and fees. The MnSCU System Office allocates a portion of the system-wide state appropriation to the college based on a formula. The college is responsible for collecting tuition and fees from students. The total of appropriations and dedicated receipts establishes the spending authority for the college. Table 1-1 provides a summary of the college's sources and uses of funds for the fiscal year ended June 30, 1999.

Northland is affiliated with the Northland Community and Technical College Foundation, an autonomous, non-profit organization. The foundation offers scholarships and funds for other activities that benefit the educational mission of the college.

Table 1-1
Northland Community and Technical College
Sources and Uses of Funds (1)
Fiscal Year Ended June 30, 1999

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
Revenues:				
State Appropriations	$ 8,133,194	$ 0	$ 0	$ 0
Tuition and Fees	2,853,763	156,661	46,678	0
Sales and Services (2)	89,966	191	109,759	0
Federal Grants	0	1,354,788	8,953	0
State Grants	893,882	0	0	0
Private Grants	401,493	20,000	0	53,550
Other Income	44,167	302	12,539	0
Total Revenues	$12,416,465	$1,531,942	$177,929	$53,550
Expenditures/Expenses:				
Salaries	$ 8,130,147	$ 355,099	$ 38,170	0
Purchased Services	1,171,030	72,339	7,067	0
Utilities	445,596	5,374	437	0
Contract/Consultants	12,023	295	0	0
Supplies	785,514	92,501	3,940	0
Financial Aid	577,632	921,264	3,550	$53,550
Capital Expenditures	702,465	19,363	0	0
Debt Service – Interest	205,065		0	0
Other	184,013	33,093	31,344	0
Total Expenditures/Expenses	$12,213,485	$1,499,328	$ 84,508	$53,550
Transfers:				
Transfers-In	$ 83,572	$ 1,823	$ 30,464	$ 0
Transfers-Out	(82,122)	(2,880)	0	0
Net Transfers	$ 1,450	$ (1,057)	$ 30,464	$ 0
Change in Fund Balance	$ 204,430	$ 31,557	$123,885	$ 0
Beginning Fund Balance (4)	$ 586,011	$ (28,281)	$465,132	$(1,647)
FY 1999 Balance Forward				
Ending Fund Balance (3) (4)	$ 790,441	$ 3,276	$589,017	$(1,647)

Note (1): This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from Generally Accepted Accounting Principles in the following ways: MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Beginning and ending fund balances do not reflect assets, such as accounts receivable and prepaid assets; or long-term liabilities, such as debt and compensated absences. Compensated absences (all funds) as of June 30, 1999, were estimated at $872,000.

Note (2): Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and Services-Gross	$410,698
Cost of Goods Sold	(300,939)
Sales and Services-Net	$109,759

Note (3): Fund balance for the General Fund includes budgetary reserve of $100,000, dedicated program balances of $109,000, and undesignated balances of approximately $581,000. Fund balance of the Enterprise Fund includes budgetary reserves of $143,000 for parking lot maintenance, $80,000 for cafeteria remodeling, $10,000 for the Student Success Incentive Fund, and $356,000 of undesignated balance.

Note (4): The negative beginning and ending fund balances result from the college recording expenditures (such as financial aid disbursements) in one fiscal year but recording the corresponding revenue (such as federal reimbursements) in the following fiscal year. Also, an outstanding loan of $98,000 from the bookstore account (Enterprise Fund) to the Minnesota Job Skills Project at Northland (Special Revenue Fund) is not reflected in the beginning and ending fund balances for the Enterprise and Special Revenue Funds.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Northland operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization.

Northland's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems, and that the college maintained an appropriate relationship with its foundation. However, the college did not reconcile financial activity on a periodic basis, nor prepared timely adjustments.

For the items tested, Northland did not comply with legal provisions regarding local bank accounts. The college did not always have sufficient collateral to cover its cash in the bank.

As required by the MnSCU system office, Northland used the MnSCU accounting system to initiate transactions and record all its financial activity, including money maintained within the state treasury and local activity accounts maintained outside the state treasury. MnSCU accounting interfaces with the state's accounting system (MAPS) to generate warrants from the state treasury for certain activities. Northland administered certain funds, such as financial aid, agency accounts, and enterprise activities, in local bank accounts. The local bank account also served as the college's state depository and link to the state treasury.

Audit Objectives and Methodology

The primary objectives of our review of Northland's financial management were to answer the following questions:

- Did Northland's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

- Did Northland's internal controls provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

- Did Northland's internal controls provide reasonable assurance that it maintained an appropriate relationship with its foundation?

- For the items tested, did Northland comply with applicable legal provisions regarding local bank accounts?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent Northland used the system for each of the program areas we audited. We also gained an understanding of the management controls in place over state treasury and local bank activities, such as budget monitoring and reconciliations. Using computer assisted audit techniques, we analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We reviewed billings and collections for state grant revenue. We also reviewed local bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Finally, we reviewed security privileges to determine whether the college adequately limited access to its computerized business systems.

Conclusions

Northland operated within available financial resources and generally in compliance with applicable legal provisions and management's authorization.

Northland's internal controls provided reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems, and that the college maintained an appropriate relationship with its foundation. However, the college did not reconcile financial activity on a periodic basis, nor prepared timely adjustments.

For the items tested, Northland did not comply with legal provisions regarding local bank accounts. The college did not always have sufficient collateral to cover its cash in the bank.

1. PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Northland did not perform periodic reconciliations or prepare timely adjustments.

Northland did not periodically reconcile financial activity recorded on the MnSCU Accounting System to MAPS. In addition, Northland did not prepare timely adjusting entries following the completed reconciliation.

Due to the complexity of the reconciliations and Northland's desire to get them done, Northland asked the MnSCU system office to perform the reconciliations. The agreement between Northland and the system office was not documented. Northland paid the MnSCU system office $6,000 to compensate them for this assistance. The system office sporadically performed some reconciliations, but not on a periodic basis.

Also, Northland did not timely correct errors identified through the reconciliation process. Table 2-1 shows the differences between MAPS and MnSCU for each fiscal year. Some accounts have no variances or have immaterial variances. The general appropriation variance of $472,779 is primarily due to an appropriation that was not recorded for fiscal year 1997.

Table 2-1
MnSCU to MAPS Fund Balance Variances [1]
Fiscal Years 1997 to 1999

Appropriation	1997	1998	1999
General	$ 469,074	$469,074	$472,779
State Grant Revenue	0	69,209	69,209
Clearing Account	29,339	68,820	68,820
Instructional Technology Grant	28,662	28,662	28,662
Farm Business Management	24,000	24,000	24,000
Private Grant Revenue	0	0	162
Federal Grant Revenue	0	0	0
Federal Perkins	0	0	0
Repair & Betterment	0	0	0
Work Skills Upgrade	0	0	0

Note (1) Variances are cumulative and carry forward to subsequent fiscal years.

Source: MnSCU System Office as of February 15, 2000.

Outstanding variances dating back to 1997 indicate the college had not prepared accounting system adjustments on a timely basis. By not promptly correcting items identified through the reconciliation process, the college may rely on inaccurate data for financial decisions or financial reporting. Since the MnSCU System Office prepares financial statements from the accounting systems, untimely reconciliations and adjustments may result in inaccurate reporting.

Recommendation

- *Northland should perform periodic reconciliations of MnSCU to MAPS financial activity. The college should complete adjusting transactions in a timely manner to correct differences between the two systems.*

2. Northland did not maintain insurance and collateral sufficient to safeguard its bank balances.

Northland's bank balance at times exceeded the amount of insurance and collateral pledged by the bank. The Federal Deposit Insurance Corporation (FDIC) provided the college with $100,000 of insurance and the bank pledged additional collateral with a market value of approximately $300,000. Northland’s bank statements showed that its bank balances approached $1 million during peak periods. The college’s cash in the bank exceeded the amount of collateral pledged for up to a week during tuition collection periods. In order for its money to be properly protected, the college should ensure that the bank provides sufficient collateral at all times. Government entities should establish collateral equal to at least ten percent more than the amount on deposit. Minn. Stat. 118A.03 and federal regulations require that funds be protected by collateral.

Recommendation

- *Northland should work with the local bank and ensure that bank balances are collateralized in accordance with federal and state statutory requirements.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Northland's internal controls provided reasonable assurance that the college adequately safeguarded, promptly deposited, and accurately recorded tuition and fee revenue in compliance with applicable legal provisions and management's authorization.

For the items tested, Northland complied with significant finance-related legal provisions concerning tuition and fee receipts.

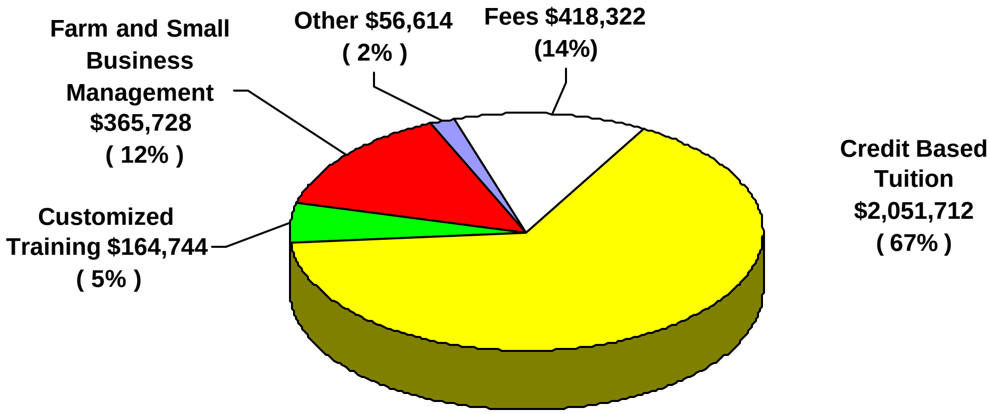
Northland collected tuition and fee receipts from students enrolled in campus programs. Tuition was based on the number of credits each student enrolled for each quarter or semester. Fees were also assessed for various student activities such as health services, intercollegiate athletics, and other student clubs. In fiscal years 1997 and 1998, Northland operated on a quarter system. Northland changed to a semester system in fiscal year 1999. For the Spring 2000 semester, the resident tuition rate was $68.60 per semester credit.

In addition, Northland collected revenue from customized training, which included non-credit continuing education and contract training courses. Northland designed continuing education courses for the public, and developed contract training courses to meet the educational needs of specific businesses or industries.

Northland also collected revenue from the Farm and Small Business Management Education Program. This program trained farmers and other small business owners to meet their family and business goals.

Figure 3-1 shows tuition and fee revenue for fiscal year 1999.

Figure 3-1
Tuition and Fee Revenue by Source
Fiscal Year 1999



Note: "Other" consists of Senior Citizens, Non-Resident, and Minnesota high school students.
Source: MnSCU Accounting System.

Audit Objectives and Methodology

Our review of Northland's tuition and fee revenue focused on the following objectives:

- Did Northland's internal controls provide reasonable assurance that the college adequately safeguarded, promptly deposited, and accurately recorded tuition and fee revenue in compliance with applicable legal provisions and management's authorization?

- For the items tested, did Northland comply with significant finance-related legal provisions?

To meet these objectives, we interviewed college employees to gain an understanding of the internal control structure in place over assessing, collecting, depositing, and recording tuition and fee revenue. For credit based revenue, we reviewed student registrations, billings, waivers, and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions. We performed detailed tests of transactions and analytical procedures. For non-credit based revenues, we reviewed class rosters, registration forms, receipt logs, contracts, billing invoices, and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions.

Northland Community and Technical College

Conclusions

Northland's internal controls provided reasonable assurance that the college adequately safeguarded, promptly deposited, and accurately recorded tuition and fee revenue in compliance with applicable legal provisions and management's authorization.

For the items tested, Northland complied with significant finance-related legal provisions concerning credit and non-credit based tuition and fee receipts.

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Chapter 4. Payroll Expenditures

Chapter Conclusions

Northland's internal controls provided reasonable assurance that it accurately reported payroll expenditures in the accounting records in compliance with applicable legal provisions and management's authorization.

For the transactions tested, Northland complied with material finance-related legal provisions and bargaining agreements.

Payroll is Northland's largest operating cost, annually totaling about $8.5 million or 62 percent of total expenditures. During fiscal year 2000, Northland employed 75 full-time faculty, 35 part-time faculty, 55 staff, and 6 administrators. College employees are covered by the following compensation plans:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Middle Management Association (MMA)
- Minnesota Association of Professional Employees (MAPE)
- Excluded Administrators Plan
- Commissioner's Plan
- United Technical College Educators Plan (UTCE)
- Minnesota Community College Faculty Association (MCCFA)

Audit Objectives and Methodology

The primary objectives of our review of payroll expenditures were to answer the following questions:

- Did Northland's internal controls provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did Northland comply with the significant finance-related legal provisions concerning payroll?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile payroll transactions. We analyzed employee compensation, compared hours worked to timesheets for classified employees, and tested payrate increases for management's authorization and compliance with bargaining unit agreements. We also summarized, reviewed, and compared payroll transactions to appointments for a sample of employees.

Conclusions

Northland's internal controls provided reasonable assurance that it accurately reported payroll expenditures in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, Northland complied with the significant finance-related legal provisions.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Generally, Northland's internal controls provided reasonable assurance that the college's administrative expenditures were accurately recorded in the accounting records, in compliance with applicable legal provisions and management's authorization. However, the college needs to comply with certain purchasing guidelines, and perform a physical inventory count of its fixed assets.

For the transactions tested, the college complied with the significant finance-related legal provisions concerning administrative expenditures.

Northland staff and faculty purchase equipment, materials, supplies, and services to facilitate the educational mission of the institution. The MnSCU Board's policies govern the purchasing function for the college. Administrative expenditures included payments for non-payroll items, such as purchased services, supplies, equipment, and contractual services. Administrative expenditures totaled approximately $2.9 million in fiscal year 1999.

To purchase goods or services, college faculty or employees submitted an authorized purchase requisition to the business office. The business office verified that funds were available in the appropriate cost center for the purchase, encumbered the funds, created a purchase order, and sent it to the vendor. The business office also received the invoice and matched it to the purchase requisition, purchase order, and the receiving report or packing slip. The business office did not make payment until confirmation of receipt had been made. Staff doing business away from the college used field purchase orders to accommodate the immediate need for supplies.

Audit Objectives and Methodology

We focused our review of administrative expenditures on the following questions:

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

- For the items tested, did the college comply with the significant finance-related legal provisions concerning administrative expenditures?

To address these questions, we obtained an understanding of the internal control structure over the expenditure process. We interviewed employees regarding monitoring of system security clearances and procedures used to process and reconcile expenditure transactions. We reviewed controls and tested transactions related to the acquisition of equipment, materials, supplies, and services. We tested transactions to determine whether the college properly procured and documented disbursement transactions, paid the correct amount, recorded transactions in MnSCU accounting, and complied with applicable MnSCU policies. Finally, we reviewed the college's process to record, track, and safeguard its fixed assets.

Conclusions

Northland's internal controls provided reasonable assurance that administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the college needs to better document bids obtained for purchases over $500, and limit reimbursements to employees. Additionally, the college needs to conduct a physical inventory of its fixed assets.

For the items tested, the college complied with the significant finance-related legal provisions concerning administrative expenditures.

3. PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Northland did not document bids for purchases over $500, and allowed employees to be reimbursed for items which should have been purchased through the requisition process.

The business office and bookstore did not document quotes for five of the six purchases tested over $500. Northland's purchasing policy requires a minimum of two telephone quotes for purchases of $500 or more. The policy requires that the college retain documentation of the quotes. MnSCU Board Policies allow individual schools to set their own guidelines for purchases under $10,000.

Also, employee expense reports showed reimbursements to staff for items such as textbooks and software for the curriculum of the Farm Business Management and Nursing programs. During fiscal years 1997, 1998, and 1999, the college reimbursed staff $16,829 for their purchases of supplies, textbooks, software, and other miscellaneous items. Northland's purchasing guidelines require staff to request purchases through the business office using a requisition, which allows the business office to ensure that the college has sufficient funds available to make the purchase and that proper authorities have approved the purchase. Farm Business Management and Nursing program staff circumvent these business office controls when they use expense reports to request reimbursement.

Recommendations

- *The college should document quotes for purchases over $500.*
- *All purchases should be made through the business office using requisitions.*

4. PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: Northland did not adequately control inventory.

Northland's fixed asset list did not include assets purchased prior to 1997, and the college had not updated the list for assets that have been destroyed, removed from service, or transferred to another location. The college had not performed periodic physical inventory counts to determine the accuracy of the asset list. Without an effective fixed asset control, it is difficult for the college to properly value its fixed assets, determine their location, and guard against loss or theft.

MnSCU policy requires that the college develop a procedure for recording fixed assets over $2,000, and allows each institution the discretion to record assets under $2,000.

Recommendation

- *The college should conduct a physical inventory count to establish a complete and accurate list of its fixed assets. The college should ensure that the list is updated timely with purchases, transfers, and retirements. Periodic spot checks should be performed to monitor compliance with inventory policies and ensure the accuracy of the inventory records.*

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Chapter 6. Bookstore Operations

Chapter Conclusions

Northland's internal controls provided reasonable assurance that bookstore revenues were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the college needs to better segregate incompatible purchasing and receiving functions and limit computer system access of bookstore employees.

For the transactions tested, the college complied with the significant finance-related legal provisions concerning the bookstore. However, the college should repay the bookstore for an inappropriate loan.

The Northland bookstore sells textbooks, school supplies, clothing, gifts, and other items. MnSCU Board Policies govern the purchasing function for the bookstore. Northland's policies allow the college to use bookstore profits to provide scholarships to students and fund projects that benefit the general student population. Table 6-1 shows the bookstore's income statement for the year ended June 30, 1999.

Table 6-1
Northland Bookstore
Income Statement
Fiscal Year 1999

Sales		**$401,486**
Cost of Goods Sold		
Beginning Inventory	$ 59,917	
Purchases	289,235	
Goods Available for Sale	$349,152	
Less: Ending Inventory	48,213	
Total Cost of Goods Sold		**$300,939**
Gross Profit		**$100,547**
Operating Expenses		
Salaries	31,835	
Benefits and Student Help	6,336	
Supplies	1,755	
Indirect Costs	12,020	
Other	7,602	
Total Operating Expenses		**59,548**
Income From Operations		**40,999**
Nonoperating Revenue		**26,169**
Net Income		**$ 67,168**

Source: Prepared by Northland Business Office (unaudited).

Audit Objectives and Methodology

Our review of the bookstore's operations focused on the following questions:

- Did Northland's internal controls provide reasonable assurance that bookstore revenue and expense transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did Northland comply with the significant finance-related legal provisions concerning bookstore expenses?

To address these questions, we obtained an understanding of the internal control structure over the bookstore's revenues and expenses. We reviewed controls related to sales and revenue recording, and to the acquisition of supplies and merchandise for resale. We interviewed employees regarding monitoring of computer system security clearances and procedures used to process and verify disbursement transactions. We sampled disbursement transactions to determine whether the college properly documented transactions, paid the correct amount, recorded transactions in the accounting system, and complied with applicable MnSCU policies. We also reviewed controls over inventory.

Conclusions

Northland's internal controls provided reasonable assurance that bookstore revenues and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the bookstore has poor separation of duties for purchasing and receiving, and computer system access.

For the items tested, the college complied with the significant finance-related legal provisions, except that Northland inappropriately loaned bookstore profits to provide cash flow for a grant program.

5. PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: The bookstore manager performed incompatible purchasing and receiving functions and had inappropriate security access to the accounting system.

The bookstore manager both authorized purchases and received the goods when they were delivered. In addition, the bookstore manager also had computer security access to make purchases and authorize payments in the computer system. These duties are incompatible since an employee could order inappropriate goods and conceal their receipt or payment.

Northland recently separated the bookstore duties pertaining to cash receipts by involving the business office. The college could achieve a similar separation by involving the business office in the purchasing function.

Recommendation

- *Northland should separate the bookstore's purchasing and receiving functions and remove system clearance for purchase authorization from the bookstore manager's computer system access.*

6. Northland inappropriately used bookstore funds to provide cash flow for a grant program.

In September 1998, Northland transferred $98,000 of bookstore funds to the Minnesota Job Skills Project, a grant program that operates on a reimbursement basis. Northland transferred the funds to provide cash flow assistance until the grant program received reimbursement. The college did not record the transaction as an interfund loan on MnSCU accounting. Perhaps Northland could have used general appropriations to provide cash flow assistance for this grant. Northland has not repaid the bookstore for the loan. The college's bookstore policy limits the use of bookstore profits to projects that benefit the general student population at Northland.

Recommendation

- *Northland should repay the bookstore $98,000.*

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Chapter 7. Student Financial Aid

Chapter Conclusions

Northland's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. Northland's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts.

For the items tested, Northland complied with applicable federal requirements over receiving federal funds.

Northland participates in the following student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan Programs (CFDA #84.032)
- Federal Work-Study Program (CFDA #84.033)
- Federal Supplementary Education Opportunity Grant Program (CFDA #84.007)
- Federal Perkins Loan Program (CFDA #84.038)
- Minnesota State Grant Program

Audit Objectives and Methodology

We focused our review of federal financial aid on the following objectives:

- Did Northland's internal controls provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?

- Did Northland's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?

- For the items tested, did Northland comply with applicable federal requirements over receiving federal funds?

We reviewed and tested controls over compliance with federal and state legal requirements for packaging, awarding, and disbursing student financial aid for the 1999-2000 academic year. We also reviewed and tested Northland’s federal cash management procedures. Eligibility for student financial aid programs is verified on an annual basis as part of the Single Audit of the state’s federal expenditures and is not included in the scope of this audit.

Conclusions

Northland's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations. Northland's internal controls over the packaging, awarding, and disbursing of financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts.

For the items tested, Northland complied with applicable federal requirements over receiving federal funds.

Status of Prior Audit Issues
As of March 16, 2000

Most Recent Audits

Northland Audit

Legislative Audit Report 97-45, issued in August 1997, covered the college's material activities and programs, including general financial management, tuition, and fees, payroll and administrative expenditures, bookstore activities, federal and state financial aid, and the college's relationship with the Northland Community and Technical College Foundation and Joint Powers Board. The report contained 18 findings. The college substantially implemented 11 findings. Six other findings pertaining to separation of duties, controls over receipts, and documentation of bids were partially implemented. One finding pertaining to inventory controls was not implemented. All unresolved findings were addressed in the current audit report or were verbally discussed with the college.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Northland Community and Technical College.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1998. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Northland Community and Technical College.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

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NORTHLAND
COMMUNITY
AND
TECHNICAL
COLLEGE

June 14, 2000

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report on Northland Community and Technical College for the period of July 1, 1996 to December 31, 1999. The college staff has reviewed the audit findings and recommendations and has responded to those recommendations in this letter.

Finding #1:

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Northland did not perform essential monthly reconciliations or prepare timely adjustments.

Recommendation

Northland should perform monthly reconciliations of MnSCU to MAPS financial activity. The college should complete adjusting transactions each month to correct differences between the two systems.

College Response

We agree with the finding. The college will take advantage of all training opportunities offered by the systems office and utilize MnSCU designated campus contacts to develop a process to do the reconciliations locally. This will enable the college to establish its own timetable for completing the reconciliations, and it will allow us to identify the differences and make appropriate corrections in a timely manner. We will continue to use systems office assistance in performing MAPS to MnSCU reconciliations through fiscal year 2001 as a backup and will do them locally by September 2001.

Responsible person: Dennis Paesler, Business Manager
Date Projected for Completion: September 1, 2001

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Finding #2:

Northland did not maintain insurance and collateral sufficient to safeguard its bank balances.

Recommendation:

Northland should work with the local bank and ensure that bank balances are collateralized in accordance with federal and state statutory requirements.

College Response

We agree with the finding. In July 1999, the college entered into an agreement with its bank to have its bank account swept nightly. The funds are used to buy GNMA securities in the college's name and earn interest overnight. The securities are sold at the beginning of the next banking day and returned to our local account. We will work with the bank and the Attorney General's office to determine whether or not this arrangement constitutes adequate collateral. The bank has agreed to pledge additional collateral in the event the Attorney General's office determines this arrangement is not adequate.

Responsible person: Dennis Paesler, Business Manager
Date Projected for Completion: August 31, 2000

Finding # 3:

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Northland did not document quotes for purchases over $500, and allowed employees to be reimbursed for items which should have been purchased through the requisition process.

Recommendation

The college should document quotes for purchases over $500.
All purchases should be made through the business office using requisitions.

College Response

We agree with the finding. The college amended its purchasing policy to require two quotes for purchases exceeding $2,000 for fiscal year 2000 to reduce the frequency of needing two quotes.

In addition to adopting a more meaningful policy, the college will publicize the policy college wide and advise all employees of the policy at the pre service workshop prior to the beginning of fall semester. We will also identify individuals likely to be responsible for purchases of $2,000 or more and emphasize to them the importance of adhering to the purchasing policy. Purchases will be monitored by the business office.

The college will review its employee expense reimbursement policy to determine what expenses are appropriate to purchase in this manner. Supervisors and employees will be informed of allowable reimbursable expenses.

Responsible person: Dennis Paesler, Business Manager
Date Projected for Completion: September 1, 2000

Finding #4:

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: Northland did not adequately control inventory.

Recommendation

The college should conduct a physical inventory count to establish a complete and accurate list of its fixed assets. The college should ensure that the list is updated timely with purchases, transfers, and retirements. Periodic spot checks should be performed to monitor compliance with inventory policies and ensure accuracy of the inventory records.

College Response

We agree with the finding. The college will contract with an appraisal firm to do a physical inventory and determine original values of items. Items not recorded on the ISRS fixed asset module will be added. Procedures will be established to assure that items are removed from the fixed asset system when they are discarded. Periodic checks will be scheduled and performed.

Person Responsible: Dennis Paesler, Business Manager
Projected date of Completion: September 30, 2000

Finding # 5:

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: The bookstore manager performed incompatible purchasing and receiving functions and had inappropriate security access to the accounting system.

Recommendation

Northland should separate the bookstore's purchasing and receiving functions and remove system clearance for purchase authorization from the bookstore manager's computer system access.

College Response

We agree with the finding. The bookstore manager's access to modules not related to the bookstore have been deleted.

The college will establish a receiving department that will be responsible for checking in all packages for the college. This will provide separation of duties for the purchasing and receiving functions. We are in the process of developing a job description for a half time receiving clerk and plan to have the position filled by September 2000.

Responsible person: Dennis Paesler, Business Manager
Date of Projected Completion: September 30, 2000

Finding # 6:

Northland inappropriately used bookstore funds to provide cash flow for a grant program.

Recommendation

Northland should repay the bookstore $98,000.

College Response
We agree with the finding. The loan from the bookstore to the MJSP Grant was paid back June 9, 2000.

The college will follow MnSCU's recommendation of financing cash flow shortages in state grants with loans from the general fund and will use appropriate balance sheet object codes.

Responsible person: Dennis Paesler, Business Manager
Date of Projected Completion: Immediate

We wish to thank the Legislative Auditor's staff for their thorough review, their professionalism toward our staff, and their assistance in helping to make us a stronger and more viable college.

Sincerely,

/s/ Orley D. Gunderson

Dr. Orley D. Gunderson, President
Northland Community and Technical College

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