OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Normandale Community College

July 1, 1996, through December 31, 1999

AUGUST 3, 2000

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Financial Audit Division

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Report Summary

Financial-Related Audit Report

Normandale Community College

July 1, 1996, through December 31, 1999

Normandale Community College operated within available financial resources and generally complied with applicable legal provisions and management's authorization. However, we found the following internal control weaknesses impacting the safeguarding of assets and recording of financial activities in the college's accounting systems:

Key Findings and Recommendations:

- Employee access to college computerized business systems was not sufficiently restricted. We recommended the college limit access to the minimum level necessary to complete employee job responsibilities. (Finding 1, page 7)
- The college did not properly record certain financial activity and did not timely reconcile state treasury and bank balances to the accounting system timely. We also noted that cash balances in two inactive bank accounts need to be resolved. We recommended that the college resolve reconciliation differences and close unneeded bank accounts. (Findings 2 through 4, pages 9 - 11)
- The college did not ensure that all tuition collections were deposited and properly posted in the accounting system. Increased risk results from inadequate control over sensitive waiver transactions and backdated registration cancellations. We recommended formal policies addressing documentation, review, and authorization requirements. Also, college management should receive periodic reports quantifying the extent of these activities. (Finding 6, page 14)
- We recommended that the college reconcile payroll and Federal Perkins Loan activities to the MnSCU accounting system in a timely manner. (Findings 7 and 8, pages 18 - 21)
- The college did not properly record liability dates in MnSCU Accounting. We recommended proper posting of liability dates on its disbursement transactions in the accounting system. (Findings 9, page 24)
- College bookstore receipts were not promptly deposited and financial statements do not reflect all operating costs. We recommended daily deposits and requested the college to formalize its plan to allocate certain costs to the bookstore. (Findings 10 and 11, page 26)

Normandale Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This **financial-related audit report** focused on financial management, tuition and fees, payroll, operating expenditures, and auxiliary enterprises for the period from July 1, 1996, through December 31, 1999. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000. The college's response is included in the report.

Normandale Community College

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Eric Wion, CPA, CISA	Auditor-In-Charge
Neal Dawson	Senior Auditor
Susan Mady	Staff Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Normandale Community College and the System Office at the exit conference held on July 14, 2000:

System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Margaret Jenniges	Director of Financial Reporting
Jennifer Struemke	Internal Audit Coordinator
Andrew Boss	MnSCU Board of Trustees

Normandale Community College:

Thomas Horak	President
Bernardine Bryant	Vice President, Administrative Services
Craig Erickson	Fiscal Services Director

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 J. Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Thomas Horak, President
Normandale Community College

We have audited Normandale Community College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included: financial management, tuition, payroll, operating expenditures, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000, as of December 31, 1999. We discuss these issues more fully in the individual chapters of this report.

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. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the college complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of the college is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Normandale Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 3, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 7, 2000

Report Signed On: July 26, 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

Normandale Community College, established in 1968, is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when the community colleges, state universities, and technical colleges merged. Dr. Thomas Horak has served as the college president since 1991.

The college offers a wide array of educational opportunities to its students, including the arts, humanities, social sciences, physical science, mathematics, computers, and specific career-related academic programs, such as dental hygiene and law enforcement. The college also provides noncredit continuing education and customized training programs. The college serves approximately 11,000 students annually, making it among the state's largest two-year college.

The college is affiliated with the Normandale Community College Foundation, a separate, nonprofit organization. The foundation provides student scholarships and other financial support to the college. The college has a formal signed contract with the foundation that outlines the duties and responsibilities of both parties. The foundation received staffing and other administrative support from the college. In return, the foundation provided student scholarships and grants that benefit the educational mission of the college. The foundation's fiscal year 1999 financial statements show that it awarded $149,681 in scholarships and grants.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General, Special Revenue, and Enterprise Funds for fiscal year 1999.

Table 1-1
Sources and Uses of Funds
For the Fiscal Year Ended June 30, 1999

	General	Special Revenue	Enterprise
Revenues:			
State Appropriation	$14,142,102	$ 0	$ 0
Tuition and Fees	9,655,534	486,236	34,088
Sales and Services (2)	48,794	44,584	847,177
Federal Grants	0	2,550,108	37,114
State Grants	1,028,961	0	0
Private Grants	240,720	58	16,466
Other Income	99,473	533	116,337
Total Revenues	$25,215,584	$3,081,519	$1,051,182
Expenditures:			
Salaries	$20,094,415	$ 762,222	$ 310,625
Purchased Services	1,743,087	66,355	240,237
Utilities	616,856	62	0
Contract/Consultants	113,015	5,409	200
Supplies	1,876,739	55,098	238,197
Financial Aid	831,883	1,817,386	0
Capital Expenditures	144,093	14,129	0
Debt Service-Interest	321,341	0	22,806
Other Expenses	330,516	182,424	122,282
Total Expenditures	$26,071,945	$2,903,085	$ 934,347
Transfers			
Transfers-In	$ 482,459	$ 156,475	$1,195,885
Transfers-Out	(11,192)	(79,320)	(1,696,586)
Total Transfers	$ 471,267	$ 77,155	$ (500,701)
Change in Fund Balance	$ (385,095)	$ 255,590	$ (383,865)
Beginning Balance (3)	3,383,660	(116,313)	2,893,468
Ending Fund Balance (4)	$2,998,565	$ 139,277	$2,509,602

Note 1: This table is prepared using 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 appropriations, differs from Generally Accepted Accounting Principles (GAAP) 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 received by the close of the books are not included. Capital project revenues and expenditures are not included. Beginning and ending balances do not include all assets, such as accounts receivables, or long-term liabilities such as debt and compensated absences. Compensated absence liabilities at June 30, 1999, were $2,203,834, $39,287, and $17,640 for the General Fund, Special Revenue Fund, and Enterprise Fund, respectively.

Note 2: Enterprise funds do not include all operating costs such as rent and utilities. Enterprise Fund sales and services of $847,177 include gross sales ($2,682,193) less cost of goods sold ($1,835,016).

Note 3: The negative beginning fund balance in the Special Revenue Fund resulted from inaccurate posting of financial aid transactions by the college, as discussed in Chapter 2, Finding 2, and also not drawing all federal work study funds in a timely manner.

Note 4: The June 30, 1999 fund balance for the General Fund includes an undesignated operating reserve of $903,000, as calculated by the college. The college is required to maintain a reserve according to board policy. The remaining balance was restricted for various commitments and other obligations. We noted, as discussed in Chapter 2, the college planned to use over $2 million of its ending fund balance for fiscal year 2000 operations.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Normandale Community College operated within available financial resources and generally complied with applicable legal provisions and management's authorization. We found, however, that the college had the following internal control weaknesses impacting the safeguarding of assets and recording of financial activities on the college's accounting systems:

- ***employee access to college computerized business systems was not sufficiently restricted;***
- ***certain financial activities were not accurately and timely recorded on MnSCU accounting; and***
- ***state treasury and bank account reconciliations were not timely completed, differences were not resolved, and two accounts were inactive.***

During the audit period, the college did not obtain sufficient collateral to protect bank balances. Collateral was increased during fiscal year 2000 to a sufficient level. The college maintained an appropriate operating relationship with its foundation, however, we noted that some key financial arrangements were not included in its written foundation contract. We also suggested the college quantify total foundation-related costs incurred.

The college has faced many challenges since the MnSCU merger, including the implementation of new computerized business systems. Most recently, the college implemented new registration and accounts receivable modules.

The statewide accounting system (MAPS) is the primary accounting system used for funds held in the state treasury. Colleges use the MnSCU accounting system to initiate transactions that interface into MAPS to generate warrants from the state treasury. Colleges also administer funds in local bank accounts, separate from the state treasury, for enterprise and special revenue activities, such as the bookstore and student financial aid. MnSCU requires that colleges record all state treasury and local bank account activity on MnSCU accounting to provide a complete and comprehensive view of college finances.

MnSCU receives the majority of its funding for operations from General Fund appropriations and tuition and fees assessed to students. The MnSCU system office allocates state appropriations to its colleges and universities based upon an allocation formula.

MnSCU Board policies provide that by the end of fiscal year 2001, MnSCU institutions should have an operating budget reserve, for which no use is presently planned, of five to seven percent of the previous year's general operating revenue. The college calculated its fiscal year 1999 reserve balance at approximately $903,000, or 3.8 percent of the prior year's general operating revenue. As shown in Table 1-1, its June 30, 1999, fund balance was $2.9 million; however, the college planned to use over $2 million for fiscal year 2000 operations. The college cited decreased appropriations and increased personnel costs as the primary reasons. We noted that the estimated fiscal year 2000 ending reserve, as of December 1999, was approximately three percent of the prior year's general operating reserve. The college indicated that the actual ending reserve in June 2000 was greater than originally estimated.

Audit Objectives and Methodology

Our review of the college's overall financial management focused on the following objectives:

- Did college internal controls provide reasonable assurance that it operated within available financial resources in compliance with legal provisions and management's authorization?
- Did college internal controls provide reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college properly account for and control local bank accounts?
- Did college controls provide reasonable assurance that it had an appropriate operating relationship with related organizations such as its foundation?

To answer these questions, we interviewed college personnel to gain an understanding of the use of the MnSCU accounting system and the extent the college used the system for the areas examined. We gained an understanding of management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank accounts. We analyzed and reviewed state treasury and local bank account transactions posted to the accounting records to determine if the college properly recorded revenues and expenditures. Local bank activity was also reviewed to determine compliance with material finance-related legal provisions, such as collateral sufficiency. In addition, we reviewed employee access to MnSCU's business systems concentrating on powerful security privileges and incompatible access. Finally, we reviewed the college's relationship with the Normandale Community College Foundation.

Conclusions

The college operated within available financial resources and generally complied with applicable legal provisions and management's authorization. However, we noted internal control weaknesses impacting the college's safeguarding of assets and recording of financial activities on the college's accounting systems. The college exposed itself to increased risk of inappropriate or unauthorized transactions by not adequately restricting employee computer system access privileges. We noted certain financial activities were not accurately and timely recorded on MnSCU accounting, state treasury and bank account reconciliations were not timely completed, and differences were not resolved. We also identified two inactive bank accounts that needed to be closed and balances properly disposed of.

Normandale Community College

During the audit period, the college did not have adequate collateral sufficient to protect bank balances. It had closed and consolidated seven bank accounts and began using a single bank account to deposit receipts and disburse funds. Financial aid loan proceeds substantially increased the level of cash flowing through college bank accounts. In fact, we found periods where the collateral values were nearly $1.6 million less than the needed level. However, during the first half of fiscal year 2000, the college worked with its bank to increase its collateral to a sufficient level.

Finally, the college maintained an appropriate operating relationship with its foundation; however, we noted that some key financial arrangements were not included in its written foundation contract. We also suggested the college quantify total foundation-related costs incurred.

1. The college faced increased exposure to inappropriate or unauthorized transactions by not adequately restricting access to the college's computerized business systems.

Normandale Community College did not sufficiently limit access to its computerized business systems. An excessive number of college and system office staff had ability to update college records. The college has primary authority and responsibility to ensure employee access is necessary based upon job responsibilities. Table 2-1 lists the security weaknesses discovered during our audit.

Table 2-1
Business System Access Weaknesses
As of March 2000

Audit Area	Business System	Weaknesses
Financial Management	MnSCU Accounting	27 users had the ability to update/change the college's chart of accounts; 13 of these users were MnSCU system office staff.
		21 users had the ability to enter journal and expense vouchers; 9 of these users were system office staff.
		13 users had the ability to enter budgetary transactions; 8 of these users were system office staff.
Payroll/Personnel	SCUPPS (personnel) & SEMA4 (payroll)	One college user had unnecessary access to SEMA4, and 2 system office staff had incompatible SEMA4 access.
		The backup payroll clerk had not been assigned a SEMA4 login-ID and password. The clerk shared two other SEMA4 users' IDs and passwords.
		Several system office staff had inappropriate SCUPPS access that was not required to complete their job responsibilities.
Procurement and Disbursements	Purchase Control System (PCS) and MnSCU Accounting	10 users had inappropriate access giving them the ability to both encumber funds and enter a vendor payment; 5 users were system office employees.
Tuition and Fees	Registration and Accounts Receivable	19 users were assigned multiple security groups that resulted in incompatible access. An additional 20 users were assigned a powerful security group that allowed them to perform incompatible functions.
		21 users had the ability to change tuition and fee rates; 13 users were system office employees.
		35 college users had the ability to add/drop students from courses.
		21 users had the ability to waive students' charges, and 35 had the ability to defer a student's charge. In both cases, 14 users were system office staff.
		12 users had the ability to adjust accounts receivable; 1 of these users was a system office employee.
		Cashiers occasionally entered transactions using other cashier's login-IDs.

Source: Auditor prepared.

By not limiting access to its computerized business system, inappropriate or unauthorized transactions could occur and go undetected by the college.

Recommendations

- *Normandale Community College should limit employee access to the minimal level necessary to complete job responsibilities.*

- *The college should eliminate computer system access to incompatible functions, where feasible. If the college is unable to eliminate incompatible access because of insufficient staffing, it should develop detective controls, including periodic and independent review of the employees' work.*

2. The college did not accurately or timely record payroll clearing and some financial aid activity on the MnSCU accounting system.

The college did not properly record certain financial activities in MnSCU accounting. We noted untimely or inaccurate recording of financial activities for the payroll clearing account, federal financial aid, and grants, as discussed below.

Payroll Clearing Account (Agency Fund)

The college did not timely fund payroll clearing accounts. Certain payroll costs are to be paid from local funds, such as the bookstore, rather than state treasury funds. To facilitate use of the state's payroll system, a state treasury payroll clearing account is used. The payroll clearing account must be reimbursed from local funds each payroll cycle. We found the college did not timely reimburse its payroll clearing account. Although the college has improved over the audit period, it continued to reimburse the fund in an untimely manner. For example, the college reimbursed the account several times during the first six months of fiscal year 1999; however, the reimbursements were never sufficient. By July 1999, the unreimbursed balance had grown to $165,000.

Similar to bookstore salaries, federal and state work study expenditures were originally paid out of a state treasury payroll clearing account. In addition to not reimbursing the account in a timely manner, the college did not move the expenditures from the clearing account to the appropriate financial aid accounts in a timely manner. For example, the fiscal year 1998 federal and state work study expenditures were not posted until ten months into the fiscal year. Similarly, the fiscal year 1999 expenditures were not posted until June 1999, the end of the fiscal year end.

Federal Financial Aid and Grants (Special Revenue Fund)

The college did not properly record its federal work study revenue. Rather than record the revenue, it posted the receipts as a reduction of an asset. The asset account was not adjusted and had a negative balance of $56,533 as of February 16, 2000.

Prior to fiscal year 2000, the college did not record its financial aid and grant revenue and expenditures in a timely manner. For example, at June 30, 1999, the college had not yet recorded over $14 million of financial aid revenue and expenditures for fiscal year 1999. Financial activity for the entire year was, however, posted subsequent to fiscal year end. These posting errors may have contributed to a negative fund balance of ($167,000) for the federal financial aid account at the beginning of fiscal year 1999. The negative balance in the federal financial aid account caused the special revenue fund to show an overall negative fund balance, as mentioned in Note 3 in Table 1-1. The college typically earns sufficient federal revenue to fund its financial aid expenditures. The cause of the negative balance in the federal financial aid account should be investigated and resolved.

Stafford Loans (Agency Fund)

The college did not properly record its Stafford Loan proceeds. An agency fund is used to record student loan money flowing through the college's bank account. Essentially, the college records a liability for money owed to the student for their loan proceeds. However, the college failed to reverse the liability when funds were applied to tuition or paid to the student. The college did not enter adjusting entries, resulting in overstated balances. As of December 31, 1999, the fiscal year 2000 liability was overstated by more than $2 million.

The college has started to investigate and resolve these errors; however, further work is necessary to properly record these financial activities in MnSCU accounting. Complete and accurate accounting records are essential to evaluate the financial status of the college.

Recommendations

- *Normandale Community College should properly record its payroll clearing and financial aid activity on MnSCU accounting.*

- *The college should investigate and resolve the negative opening balance in the federal financial aid account.*

3. The college did not ensure financial reconciliations were completed in a timely manner, nor resolve cash differences between MnSCU accounting and its local bank accounts.

During our audit period, the college did not ensure complete or timely reconciliations between the financial activities recorded on MnSCU accounting and the state treasury. MnSCU system office staff perform this reconciliation for the college. During fiscal year 1997, the college only had two of its seven state treasury accounts reconciled. The first reconciliation was not performed until 11 months into the fiscal year. In fiscal year 1998, college accounts were reconciled more frequently. However, at the time of our audit, reconciliations were not completed on a regular and timely schedule. Final reconciliations for fiscal year 1998 and 1999 were not completed until February 2000, after the close of the accounting records. Finally, the college did not ensure that the necessary adjustments were made to balance the two accounting systems. At the time of our audit, the MAPS ending fund balances were $33,021 and $70,102 greater than those reported on MnSCU accounting for fiscal years 1999 and 1998, respectively.

Normandale Community College

The fiscal year 1997 MAPS ending fund balances were $62,314 less than the MnSCU accounting ending fund balances.

As of April 2000, the college had not reconciled its main bank account to MnSCU accounting. The last reconciliation was in March 1999. The college had attempted reconciling April through September 1999; however, it had identified unknown cash differences each month. According to the college, the unresolved cash differences for these months ranged from a few hundred dollars to over $10,000. Without timely reconciliations, the risk of inaccurate or misleading financial information is increased.

Recommendations

- *Normandale Community College should ensure that MnSCU accounting is reconciled to the state's accounting system (MAPS) in a timely manner. The college should consider utilizing its staff to reconcile accounting systems.*

- *The college should reconcile its bank accounts to MnSCU accounting in a timely manner and resolve the cash differences identified.*

4. Normandale Community College has not resolved cash balances remaining in two inactive bank accounts.

The college did not resolve the cash balances remaining in a bank account previously used for financial aid and grant activities. The college stopped using the bank account early in fiscal year 2000. However, at the time of our audit, the account remained open and had a cash balance of $36,807. The balance included unredeemed financial aid checks totaling $23,614. The remaining balance may consist of excess financial aid funds that need to be repaid to the state or federal government. The college applied $8,268 in financial aid to tuition, but later determined the students were no longer eligible for the aid. The funds were transferred from this bank account to the state treasury and recorded as revenue. These monies should be repaid to the appropriate funding source.

Colleges are required to record all bank accounts on MnSCU accounting. However, we found one bank account that had not been recorded in the accounting system. According to the college, the account was used, prior to March 1999, to write residual checks to students for financial aid loan funds that exceeded tuition owed. The bank account remained open at the time of our audit and maintained a $10,000 balance.

Recommendation

- *The college should resolve the cash balances and close the unneeded bank accounts. Any unused funds or ineligible financial aid should be returned to the appropriate federal or state government funding source.*

5. The college did not include all financial arrangements in its foundation contract nor quantify the total annual foundation-related costs it incurs.

The college did not include all financial arrangements in its written contract with the foundation. According to the college, the foundation agreed to reimburse the college for the salaries of two college staff that provided administrative support to the foundation. The 1999 foundation financial statements indicate it reimbursed $21,997 to the college. Without written contract terms, the staff salaries and reimbursement levels agreed by the parties could be subject to dispute or arbitrary change.

Also, the college has not quantified the total foundation-related costs actually incurred. According to MnSCU Board policy and the college's written contract with the foundation, the foundation must contribute an amount that is at least equal to the amount of costs incurred by the college. The college should periodically quantify the costs to ensure the adequacy of foundation contributions.

Recommendation

- *Normandale Community College should include all financial arrangements in its written contract with the foundation. Furthermore, the college should periodically quantify the actual foundation-related costs it incurs.*

Chapter 3. Tuition and Fees

Chapter Conclusions

Normandale Community College needs to strengthen its controls over tuition and fee receipts. We found that internal control procedures did not ensure that all collections were deposited and posted to the accounting system. Specifically, an excessive number of staff had access to update tuition rates, fees, and waivers, and accounts receivable adjustments. Also, sensitive waiver transactions pose a significant risk to the college as staff can eliminate an amount due. We suggested the college develop a written policy addressing documentation, review, and authorization requirements for waivers. Management also needs to be made aware of the extent of waivers and backdated registration drops or cancellations. For the items tested, the college complied with applicable finance-related legal provisions.

The college implemented MnSCU's newest business systems, including registration and accounts receivable, in March 1999. These Integrated Student Records System modules were used to register students, assess charges, and maintain the college's accounts receivable. The accounts receivable system has resulted in less manually posted transactions and increased automated transactions resulting from tuition assessments and collections. For example, the system automatically:

- charged tuition as a result of registration activity;
- adjusted tuition charges when courses were added or dropped;
- charged standard fees and any special fees, such as course fees;
- posted collections against student tuition and fee charges;
- applied financial aid funds to the students' accounts; and
- posted the related accounting transactions to the college cost centers or general ledgers.

Students paid their tuition and fees at the cashier windows in the business office. Staff entered collections into the system, which automatically applied the money against the outstanding balances in a specified priority order. Each morning, as part of the daily closeout process, a system report was printed summarizing the day's collections and postings. The staff used this report to balance their cash registers and post transactions to MnSCU accounting and MAPS. A courier delivered the deposit to the bank each day.

During fiscal year 1999, the college earned annual tuition and fee revenue of approximating $10 million. The resident tuition rate was $67.25 per edit hour, plus fees. The non-resident rate was $134.50 per credit hour, plus fees.

Audit Objective and Methodology

Our review of the college's tuition and fee revenue focused on answering the following question:

- Did the college design and implement internal controls to provide reasonable assurance that tuition and fee revenue was safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

To address this objective, we interviewed college employees to gain an understanding of the controls over billing, collecting, depositing, and recording tuition and fee revenue. We reviewed student registration and accounts receivable records and MnSCU accounting records to determine if the college charged students appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the college complied with applicable legal provisions regarding prompt deposit. Finally, we reviewed users' abilities to access and update

Conclusions

The college needs to strengthen its controls over tuition receipts. Current internal control procedures did not ensure that all collections were deposited and posted to the accounting system. We found that too many staff had access to update tuition rates, fees, and waivers, and accounts receivable adjustments. A key risk exposure results from sensitive waiver transactions, since staff can eliminate an amount owed by a student. We suggested the college develop a written policy addressing documentation, review, and authorization requirements for waivers. Management should also be made aware of the extent of backdated registration drops or cancellations processed by college staff. For the items tested, the college complied with applicable finance-related legal provisions.

6. The college's control procedures did not ensure that all receipts collected were deposited and properly posted to the accounting system.

Normandale Community College's internal control procedures did not ensure that all receipts collected were deposited and posted to the accounting system.

- The college, as discussed in Chapter 2, Finding 1, did not adequately limit access to its business systems. A significant number of users had the ability to enter sensitive transactions such as tuition or fee rate changes, waivers, or adjustments to accounts receivable. In addition, a significant number of users had the ability to perform incompatible functions. Of greatest risk, were cashiers and other business office staff that had access to cash who also had the ability to enter transactions that could potentially hide the misappropriation of cash.

Normandale Community College

- The college did not have an adequate process to document, authorize, and review certain waiver transactions. Waiver transactions are highly sensitive since they reduce or eliminate a student or non-student charge and the amount owed to the college. Examples include employee tuition waivers provided as a benefit of their union contract, student waivers for medical reasons or significant personal reasons, or college errors. However, except for Allis Grant and employee tuition waivers, we found the college had not adopted any specific criteria to determine when waivers should be granted, what documentation is required, and which staff are delegated authority to approve waivers. Furthermore, the college has not developed a daily system waiver report to quantify the extent and type of all waiver transactions being processed by staff. The documentation, circumstances, and criteria for approval of waivers should be set forth in a college policy.

  A substantial risk exists with cashiers, and other college staff with access to cash, who post waiver transactions. These transactions were not always documented and authorized. In addition, these transactions were not independently reviewed. In some cases, we were able to work with college staff to reconstruct the validity of these waivers. However, out of 15 waiver transactions tested, we were unable to determine the validity or propriety of two waivers. The first questionable transaction resulted from the waiver of a $150 course fee. Both accounting and registration staff were unable to provide any documentation to support the waiver. Ultimately, the course instructor indicated the fee was waived after obtaining the Dean's verbal approval. The reason for waiving the charge was unclear, and the level of management with authority to waive the charge was uncertain. The second transaction in question resulted in a student having $231 in tuition and fees waived. College accounting and registration staff were unable to provide any documentation to support the waiver. Lack of a documented explanation and an independent authorization of the waiver increased the risk of theft or the possibility of an inappropriate transaction.

  As of March 9, 2000, the college had waived $184,512 of tuition charges for fiscal year 2000. Table 3-1 summarizes waivers by waiver type or reason code entered by the user recording the transactions.

Table 3-1
Waivers
Fiscal Year 2000, As of March 9, 2000

Waiver Type or Reason Code	Amount Waived
Allis Grant Waiver	$ 53,891
College Error	51,047
Employee Waiver	46,155
Course Conditions	29,701
Other (various waiver codes)	3,718
Total	$184,512

Source: MnSCU accounting data.

- The college did not review the extent to which registration cancellation records were backdated. The computerized accounts receivable application allows users to eliminate a student's tuition and fee charges by backdating registration cancellation records. MnSCU Policy 5.8 Refunds, Withdrawals, and Waivers allows institutions discretion when canceling tuition charges. For example, a student is allowed to drop a class, without obligation, if done prior to the institution's established "drop date." At any time, system users can backdate a student's drop date to reflect a date prior to the required drop date. In essence, they eliminate the student's obligation and reduce the amount earned by the institution. These transactions should be documented and specifically authorized by management, along with a periodic measurement of the amount of backdated registration cancellations. Similar to waivers, the college had not adopted any specific criteria to determine when registration cancellation records should be backdated and the persons with ability to authorize these transactions. More specifically, the college did not distinguish when a registration record should be backdated versus recorded as a waiver. Out of seven transactions reviewed, we felt five of them should have been recorded as waivers since the students had met the college's policy for being financially obligated. In addition, a waiver transaction may provide a better audit trail.

Since implementing the new registration and accounts receivable systems in March 1999, the college backdated a total of 2,097 records, or 5,679 credits, as of March 21, 2000. Using the college's resident tuition rates, we calculated an estimated value of $462,000 for the backdated transactions. Although users can quantify the extent to which backdating occurred, they are unable to use the system to determine the specific reasons for these transactions.

Recommendation

- *Normandale Community College should develop internal controls to ensure that all receipts collected are deposited and posted to the accounting system. Specifically, the college should:*

  - *limit security access privileges based on job responsibilities;*
  - *develop a waiver policy addressing the required documentation and necessary review and approval;*
  - *produce a system waiver report for management to identify the extent and types of waiver transactions processed by staff; and*
  - *provide management with the quantified amount of backdated registration cancellations.*

Chapter 4. Employee Payroll

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that employee payroll transactions were accurately processed and reported in the accounting records and complied with material finance-related legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, the college did not adequately limit access to its payroll and personnel systems. In addition, the college did not perform key reconciliations between the state's payroll system and MnSCU accounting. For the items tested, the college compensated its employees in compliance with applicable bargaining unit contracts and compensation plans.

Payroll expenditures were the college's largest expenditure category. The college's fiscal year 1999 payroll expenditures totaled approximately $20.5 million. College employees belonged to various 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,
- Minnesota Community College Faculty Association (MCCFA).

The college used the state's payroll system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stored salary and pay rate information, tracked leave accruals for faculty and excluded administrators, and interfaced transactions into SEMA4. SEMA4 calculated the amounts paid to employees and tracked leave accruals for classified employees.

The college centralized its human resources and payroll functions. The human resources office entered all new employee data and made changes to employee's records directly in SCUPPS. The payroll section gathered timesheets from classified and part-time employees and entered the payroll information into SEMA4. Faculty payroll did not require biweekly entries into SEMA4.

Audit Objectives and Methodology

The primary objectives of our review were as follows:

- Did the college design and implement internal controls to provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with material finance-related legal provisions and management's authorization?
- Did the college compensate its employees in accordance with applicable bargaining unit contracts and compensation plans?

To address these objectives, we interviewed college staff to obtain a general understanding of the internal control structure over the payroll and personnel processes. We analyzed employee salary trends, reviewed source documents to determine proper authorizations, and recalculated payroll amounts to ensure staff were compensated in compliance with union contracts and other compensation plans. Finally, we reviewed computer system security clearances for payroll and human resources personnel.

Conclusions

The college's internal controls provided reasonable assurance that payroll transactions were accurately processed and reported in the accounting records and complied with material finance-related legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, the college did not adequately restrict computer access to its computerized payroll and personnel systems. In addition, as discussed in Finding 7, the college did not perform key reconciliations between the state payroll system and the MnSCU accounting system. For the items tested, the college compensated its employees in compliance with applicable bargaining unit contracts and compensation plans.

7. The college did not reconcile the state's payroll system and MnSCU accounting or correct known payroll posting errors.

Normandale Community College did not perform key reconciliations between the state's payroll system and MnSCU accounting. MnSCU's system office performed the reconciliations prior to fiscal year 1999 when the function was transferred to the college. However, the college had not completed the reconciliations since the transition. Bi-weekly reconciliations are necessary to ensure that payroll transactions are accurately recorded in the accounting systems.

In addition, when certain errors occur, payroll expenditures are posted to default cost centers. The college must investigate the cause of the error and make the appropriate adjustment transferring expenditures out of the default cost center into the correct one. When errors are corrected, the default cost centers should have zero expenditures. At the time of our audit, the college's default cost centers had current balances of $5,000 in fiscal year 1998, $124,000 in fiscal year 1999, and $81,000 for the first six months of fiscal year 2000. To ensure accurate cost center expenditures, these errors should be corrected each pay period.

Recommendation

- *The college should reconcile the state's payroll system to MnSCU accounting. In addition, the college should correct payroll errors that post to default cost centers each pay period.*

Chapter 5. Student Financial Aid

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that it managed state and federal student financial aid programs in compliance with program requirements. The college's financial aid software posed many problems, but alternative controls and processes were developed to avoid serious problems. However, as discussed in Chapter 2, Finding 2, the college did not record some financial aid activities properly in MnSCU accounting. In addition, the college did not reconcile Federal Perkins Loan activity in a timely manner. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

The college participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. Table 5-1 shows federal financial aid payments, as of February 10, 2000, made to students during the 1999-2000 academic year.

Table 5-1
Federal Financial Aid Payments to Students
1999-2000 Academic Year, As of February 10, 2000

CFDA	Financial Aid Program	Payments
84.063	Federal Pell Grant	$1,517,719
84.032	Federal Family Education Loan (FFEL) - Subsidized Stafford Loan	$1,805,711
84.032	Federal Family Education Loan (FFEL) - Unsubsidized Stafford Loan	$2,105,912
84.033	Federal Work-Study (FWS)	$48,114
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$100,371

Source: College Student Financial Aid System (PC_SAFE) as of February 10, 2000.

The Federal Pell Grant is the first source of financial assistance to eligible students. Pell Grant payments are not limited to the available funds at the colleges; therefore, all eligible students receive funding. The maximum Federal Pell Grant for a full-time student in the 1999-2000 award year was $3,125.

Under the Federal Family Education Loan Program, private lenders provide the loan principal and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and the Federal PLUS Loans, interest accrues from the date of origination and is the responsibility of the student.

The Federal Work-Study Program (FWS) and Federal Supplemental Educational Opportunity Grants (FSEOG) are additional sources of student federal financial aid. The federal share for both of these programs may not exceed 75 percent of the total FWS wages and FSEOG grants. Colleges must contribute a non-federal share of 25 percent.

The college also participated in student financial aid programs funded by the State of Minnesota. These programs complement the federal financial aid available to eligible students and include funding for tuition, fees and books, employment of students, and childcare. The largest state program is the Minnesota State Grant. For the 1999-2000 academic year, as of February 10, 2000, the college disbursed Minnesota State Grants totaling $1,008,007.

Normandale Community College used three information systems to package, award, disburse, and record student financial aid in fiscal year 2000. The college used a stand-alone financial aid system (PC SAFE) to award and package financial aid, MnSCU's Integrated Student Records System (ISRS) to disburse aid, and MnSCU's centralized Loan Management System (LMS) to administer Perkins Loans. PC SAFE electronically received and stored financial aid application data and interfaced records into other modules. The software posed many problems for the college but alternative controls and processes were developed to avoid serious problems.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did college internal controls provide reasonable assurance that it managed federal and state student financial aid programs in compliance with applicable laws and regulations?
- Did the college comply with applicable requirements for managing federal cash?

To address these questions, we evaluated and tested controls over compliance for determining student eligibility and awarding, packaging, and disbursing federal and state financial aid. We also tested compliance with regulations for requesting and managing federal cash.

Conclusions

The college's internal controls provided reasonable assurance that it managed state and federal student financial aid in compliance with program requirements. The college's financial aid software posed many problems, but alternative controls and processes were developed to avoid serious problems. However, as discussed in Chapter 2, Finding 2, the college did not properly record some financial aid activities in MnSCU accounting. In addition, we found that the college did not reconcile Federal Perkins Loan activity in a timely manner. For the items tested, the college complied with applicable federal requirements over receiving federal funds.

Normandale Community College

8. The college did not reconcile Federal Perkins Loan activity in a timely manner.

The college did not reconcile its Federal Perkins Loan collections and disbursements in a timely manner. The college reconciles subsystem records to MnSCU accounting annually during preparation of its year-end federal reports. Any errors occurring early in the fiscal year did not get corrected immediately. The college originally recorded the loan disbursements in MnSCU accounting and provided MnSCU's Student Loan Service Center (SLSC) with the applicable loan information. The center provides the college with student loan billing and collection services using MnSCU's Loan Management System (LMS). LMS maintained the loan detail including loan balances and repayments. Monies collected by SLSC were forwarded to the college to replenish the college's loan fund. Upon receiving the collected loan repayments, the college recorded them on MnSCU accounting. A periodic comparison is needed to ensure subsystem loan activity agrees with the inflows and outflows of Federal Perkins Loan monies in the accounting system.

Recommendation

- *Normandale Community College should reconcile LMS and MnSCU accounting in a timely manner.*

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Chapter 6. Operating Expenditures

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that expenditures for goods and services were authorized, properly procured, and accurately recorded in the accounting records. However, as discussed in Chapter 2, Finding 1, the college did not adequately limit access to its computerized business systems. In addition, the college did not properly post occurrence dates in MnSCU accounting. For the items tested, the college complied with material finance-related legal provisions.

The college incurred operating costs for purchased services, consultant and contract services, supplies, bookstore supplies for resale, and utilities totaling $5.8 million in fiscal year 1999. To make a purchase, staff were required to complete either a paper or electronic requisition form that was subsequently authorized by the appropriate college dean or staff. The requisition was forwarded to the college's purchasing agent. The purchasing agent solicited bids, if necessary, prepared the purchase order, and placed the order with the vendor. Goods were accepted at the college's centralized receiving dock and delivered to the staff member who requested the purchase. The employee verified the accuracy of the shipment and authorized the business office to make the vendor payment. The accounts payable clerk matched invoices to the applicable purchase order and receiving evidence before processing the payment.

Audit Objectives, Scope, and Methodology

The primary objectives of our audit of operating expenditures were to answer the following questions:

- Did college internal controls provide reasonable assurance that expenditures for goods and services were properly documented and processed and accurately reported in the accounting records?

- Did the college's purchasing and expenditure process comply with applicable legal requirements?

To address these questions, we made inquiries of college staff to gain an understanding of the internal controls over the procurement of goods and services and corresponding disbursements. We performed analytical reviews and tested expenditure transactions by tracing to supporting documentation and the accounting records. Transactions were tested to ensure that MnSCU and college purchasing policies were followed, and management's authorization was provided. Finally, we reviewed users' access to MnSCU's business systems.

Conclusions

Normandale Community College's internal controls provided reasonable assurance that operating expenditures were authorized, properly procured, and accurately recorded in the accounting records. However, as discussed in Chapter 2, Finding 1, the college did not adequately limit access to its computerized business systems. In addition, the college did not use the proper liability dates when recording transactions in MnSCU accounting transactions. For the items tested, the college complied with material finance-related legal provisions.

9. The college did not record proper occurrence dates for MnSCU accounting disbursement transactions.

The college did not post the proper occurrence dates when it recorded disbursements in MnSCU accounting. The occurrence date is intended to reflect the date of liability and is important for determining the accounts payable for financial statements prepared by both MnSCU and the Minnesota Department of Finance. MnSCU accounting requires the user to enter an occurrence date representing the date the financial event occurred. For expenditures, the occurrence date is the date the goods were received or the last date services were rendered. We found 21 of 35 transactions tested had been recorded in MnSCU accounting using the wrong occurrence date. In general, we found the invoice date was used, rather than the date the goods or services were actually received.

Recommendation

- *Normandale Community College should record the proper occurrence date on its disbursement transactions.*

Chapter 7. Bookstore Revenue

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that bookstore revenues were adequately controlled, properly recorded in MnSCU accounting, and complied with applicable legal provisions. However, we found that the college did not always promptly deposit its bookstore receipts and financial statements did not reflect all operating costs.

The college operates a bookstore that sells course materials and textbooks, supplies, clothing, and other miscellaneous items to its students. Revenues from sales of these items totaled approximately $2.2 million in fiscal year 1999.

The bookstore manager supervises a staff of five full-time staff and one part-time student worker. The bookstore records sales through a point-of-sale cash register system. Students have the option of paying by check, cash, credit card, or financial aid. At the end of each day, the cashier closes out the cash register and secures the receipts in a safe. The next morning, a bookstore employee reconciles the cash collected to the point-of-sale system and prepares the deposit. The bookstore delivers the receipts to the college's business office. A courier service picks up and deposits the receipts daily. Daily receipt information is also forwarded to the business office, reconciled, and recorded on MnSCU accounting.

Audit Objectives and Methodology

We focused our review of bookstore revenue on the following objectives:

- Did college internal controls provide reasonable assurance that the bookstore collections were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- Did the college bookstore have an effective process to monitor the status of its annual financial activities?

To address these questions, we interviewed bookstore, business office, and other staff to gain an understanding of internal controls over bookstore and other revenue. We performed analytical reviews and tested transactions to determine if the college properly documented and accurately recorded transactions on the MnSCU accounting system. In addition, we made inquiries about the overall financial management of the bookstore.

Normandale Community College

Conclusions

The college's internal controls provided reasonable assurances that bookstore revenues were adequately controlled, properly recorded, and in compliance with applicable legal provisions and management's authorization. However, we determined that the college did not always promptly deposit receipts. We also noted that annual financial statements used to monitor bookstore activities were prepared but did not reflect all operating costs.

10. Normandale Community College did not always promptly deposit bookstore receipts.

The college did not always promptly deposit bookstore receipts. Four of fifteen deposits tested included deposit delays that ranged from three to four business days. For example, one August 1998 deposit totaling $16,517 was not deposited for three business days, and a September 1999 deposit of $4,831 was held for four days. According to the college, deposit delays were primarily due to the large volume of receipts collected during the first week of an academic semester. The large volume resulted in the daily reconciliation process being more laborious. To adequately safeguard receipts, deposits should be made promptly. Furthermore, Minnesota Statute 16A.275 requires that state agencies deposit all receipts over $250 on a daily basis.

Recommendations

- *The college bookstore should improve control by depositing receipts, totaling $250 or more, on a daily basis.*

11. The college bookstore's financial statements did not reflect all operating costs, and a cost allocation plan was not formally approved by management.

The college bookstore did not prepare complete financial statements as all operating costs were not reflected. The college did not charge any rent, utilities, or indirect costs to the bookstore. The bookstore is an auxiliary enterprise and should account for operations in a manner similar to private business. An income statement reflecting all operating costs would allow college management to make informed pricing and business decisions.

Also, the bookstore financial statements include payroll charges for staff that do not work on the bookstore. The college business office funded one accountant's salary from bookstore funds. The accountant, however, did not spend the majority of time on bookstore manners. The college indicated this arrangement was done informally to offset some of the other costs the bookstore does not pay for. This may be a satisfactory arrangement as an indirect cost allocation, but should be formalized in a plan authorized by college management. The plan should provide equitable charges based on the benefits received.

Normandale Community College

Recommendations

- *Normandale Community College should reflect all costs in its financial statements used to monitor bookstore activities.*

- *The college should formalize its cost allocation plan as a mechanism to fund bookstore indirect costs.*

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Status of Prior Audit Issues
As of April 7, 2000

Most Recent Audits

College Audit

Legislative Audit Report 96-42, issued in October 1996, covered Normandale Community College's fiscal year 1996 financial activity. The report contained five findings relating to control over customized training receipts, verification of the receipt of goods, prompt payment of invoices, recording of enterprise fund activities on MnSCU accounting, and control over bookstore voids. These findings were resolved.

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 Normandale Community 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. This report did not include any findings related specifically to Normandale Community 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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NORMANDALE
COMMUNITY COLLEGE
9700 France Avenue South, Bloomington, MN 55431

(612) 832-6000 / Fax (612) 832-6571 / TTY (612) 832-6864
Equal Opportunity Educator / Employer

July 24, 2000

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Normandale Community College audit report for the period 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:

The college faced increased exposure to inappropriate or unauthorized transactions by not adequately restricting access to the college's computerized business systems.

Recommendations

Normandale Community College should limit employee access to the minimal level necessary to complete job responsibilities.

The college should eliminate computer system access to incompatible functions, where feasible. If the college is unable to eliminate incompatible access because of insufficient staffing, it should develop detective controls, including periodic and independent review of the employees' work.

College response
We concur with this finding. In May of 2000 the college eliminated unnecessary staff computer access to programs and has in place only the level necessary for staff to complete job responsibilities.

- The college has eliminated computer system access to incompatible functions.

- The college will establish a formal procedure to review both user access and user security to network and business systems by July 31, 2000.
- The accounting office supervisor will review security access quarterly.
- The Director of Fiscal Services and the Dean of Students will periodically and independently review employees' security authorizations as an overall security safeguard.

Responsible Staff: Craig Erickson, Fiscal Director and Ralph Anderson, Dean of Students

Date Projected for Completion: Completed May 4, 2000. Periodic security checks will be done quarterly from hereafter as per college policy effective July 31, 2000.

Finding #2:

The college did not accurately or timely record payroll clearing and some financial aid activity on the MnSCU accounting system.

Recommendations

Normandale Community College should properly record its payroll clearing and financial aid activity on MnSCU accounting.

The college should investigate and resolve the negative opening balance in the federal financial aid account.

College response

We concur with this finding. The college will properly record its payroll clearing and financial aid activity on MnSCU accounting. Payroll clearing and financial aid activity are being properly recorded in MnSCU accounting for fiscal 2000. The Accounting Supervisor is performing this function bi-weekly since May, 2000. The Stafford Loan proceeds have been properly recorded as of April, 2000. The college has corrected the errors.

The college will investigate and resolve the negative fund balance for the financial aid account by September 30, 2000.

Responsible staff: Craig Erickson, Fiscal Director
Patricia Sheridan, Accounting Technician

Date projected for completion: Completed and September 30, 2000

<u>Finding #3:</u>

The college did not ensure financial reconciliations were completed in a timely manner, nor resolve cash differences between MnSCU accounting and its local bank accounts.

<u>Recommendations</u>

Normandale Community College should ensure that MnSCU accounting is reconciled to the state's accounting system (MAPS) in a timely manner. The college should consider utilizing its staff to reconcile accounting systems.

The college should reconcile its bank accounts to MnSCU accounting in a timely manner and resolve the cash differences identified.

<u>College response</u>
We concur with this finding. The college will ensure that MnSCU accounting is reconciled to the state's MAPS system in a timely manner. As of July 1, 2000 the college will perform the reconciliation function instead of the system office staff. The college will take advantage of all training opportunities offered by the system office for local reconciliation processes. Prior year adjustments have been made.

The college will reconcile its bank accounts to MnSCU accounting monthly and resolve the cash differences identified.

Responsible staff: Craig Erickson, Fiscal Director
Mary Cain, Accounting Officer

Date projected for completion: Completed and September 30, 2000

<u>Finding #4:</u>

Normandale Community College has not resolved cash balances remaining in two inactive bank accounts.

<u>Recommendation</u>

The college should resolve the cash balances and close the unneeded bank accounts. Any unused funds or ineligible financial aid should be returned to the appropriate federal or state government funding source.

<u>College response</u>
We concur with this finding. The college has resolved the cash balances and closed the unneeded bank accounts as of March 14, 2000 and July 24, 2000. The college is recording all bank accounts on MnSCU accounting. The college has followed the

State unclaimed property guidelines in handling unredeemed financial aid checks. Any unused funds will be returned to the appropriate funding source.

Responsible person: Patricia Sheridan, Accounting Technician

Date projected for completion: August 31, 2000

Finding #5:

The college did not include all financial arrangements in its foundation contract nor quantify the total annual foundation-related costs it incurs.

Recommendation

Normandale Community College should include all financial arrangements in its written contract with the foundation. Furthermore, the college should periodically quantify the actual foundation-related costs it incurs.

College response

We concur with this finding. The college will amend its contract with the Foundation to include all financial arrangements for staff support and will periodically quantify foundation-related costs it incurs. It will add this as a memo entry to its next independent audit.

Responsible staff: Heather Huseby, Director of Institutional Advancement

Projected completion date: September 30, 2000

Finding #6:

The college's control procedures did not ensure that all receipts collected were deposited and properly posted to the accounting system.

Recommendation

Normandale Community College should develop internal controls to ensure that all receipts collected are deposited and posted to the accounting system. Specifically, the college should:

- **limit security access privileges based on job responsibilities;**
- **develop a waiver policy addressing the required documentation and necessary review and approval;**
- **produce a system waiver report for management to identify the extent and types of waiver transactions processed by staff; and**

- **provide management with the quantified amount of backdated registration cancellations.**

College response

We concur with this finding. Since May 2000 the college has limited security access based on job responsibilities. As of March, 2000 documentation is being kept on every waiver transaction. A waiver book has been developed that identifies the extent and types of waiver transactions processed by staff. Backdated registrations will be randomly verified and reported to management quarterly. By Fall Semester 2000, the college will develop a written waiver policy that addresses necessary approval processes.

Responsible staff: Carla Newman, Accounting Office Supervisor
Patti Sheridan, Accounting Technician

Date projected for completion: August 21, 2000

Finding #7:

The college did not reconcile the state's payroll system and MnSCU accounting or correct known payroll posting errors.

Recommendation

The college should reconcile the state's payroll system to MnSCU accounting. In addition, the college should correct payroll errors that post to default cost centers each pay period.

College response

We concur with this finding. Since May 2, 2000 the college is correcting cost center expenditures each pay period. Human Resources and payroll are working to resolve past transactions. Reconciliations will be completed by August 16, 2000 and will be performed bi-weekly thereafter.

Responsible staff: Ruth Hardacker, Account Clerk
Craig Erickson, Fiscal Director

Date projected for completion: August 15, 2000

Finding #8:

The college did not reconcile Federal Perkins Loan activity in a timely manner.

Recommendation

Normandale Community College should reconcile LMS and MnSCU accounting in a timely manner.

College response
The college has corrected prior year untimely reconciliations of Federal Perkins Loan activity. The college is performing timely reconciliations since fiscal year 2000.

Responsible staff: Patti Sheridan, Accounting Technician

Date projected for completion: Completed

Finding #9:

The college did not record proper occurrence dates for MnSCU accounting disbursement transactions.

Recommendation

Normandale Community College should record the proper occurrence date on its disbursement transactions.

College response
We concur with this finding. The college will post the proper occurrence dates when it records disbursements in MnSCU accounting.

Responsible staff: Carla Newman, Accounting Office Supervisor

Date projected for completion: Completed

Finding #10:

Normandale Community College did not always promptly deposit bookstore receipts.

Recommendation

The college bookstore should improve control by depositing receipts, totaling $250 or more, on a daily basis.

<u>College response</u>
We concur with this finding. The college bookstore will promptly deposit all receipts over $250 on a daily basis. During peak periods in the bookstore, an accounting officer will assist with daily reconciliations.

Responsible staff: Elise Davis, Bookstore Manager

Date projected for completion: Completed

<u>Finding #11:</u>

The college bookstore's financial statements did not reflect all operating costs, and a cost allocation plan was not formally approved by management.

<u>Recommendations</u>

Normandale Community College should reflect all costs in its financial statements used to monitor bookstore activities.

The college should formalize its cost allocation plan as a mechanism to fund bookstore indirect costs.

<u>College response</u>
The college will reflect all bookstore costs in its financial statements and formalize a cost allocation plan to fund bookstore indirect costs.

Responsible staff: Bernardine Bryant, Vice President of Administrative Services

Projected completion date: September 30, 2000

Sincerely,

/s/ Thomas Horak / bb

Thomas Horak
President
Normandale Community College