OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Anoka Ramsey Community College
July 1, 1997, through June 30, 2000

SEPTEMBER 27, 2001 01-46

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
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Dr. Patrick Johns, President
Anoka Ramsey Community College

We have audited selected areas of Anoka Ramsey Community College for the period July 1, 1997, through March 31, 2001, as further explained in Chapter 1. Our audit scope included financial management, tuition and fees, employee payroll, administrative expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001.

We conducted our audit in accordance with *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 Anoka Ramsey Community College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college 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 Anoka Ramsey Community 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 September 27, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 10, 2001

Report Signed On: September 20, 2001

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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
Jeanine Leifeld, CPA, CISA	Audit Manager
Eric Wion, CPA, CISA	Team Leader
Steve Johnson, CPA	Senior Auditor
Irene Hass	Senior Auditor
John Hakes	Senior Auditor
Marisa Zenk	Staff Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Anoka Ramsey Community College and the MnSCU system office at the exit conference held on August 29, 2001:

System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director, Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Paul Portz	Audit Coordinator
Anoka Ramsey Community College:	
Pat Johns	President
Bonnie Anderson	Vice President
Tim Fischer	Director of Fiscal Services
Marilyn Smith	Accounting Supervisor

Report Summary

Anoka Ramsey Community College operated within its available resources. We found, however, that the college had the several internal control weaknesses that impacted the safeguarding of assets and the recording of financial activities on the college's accounting systems.

Key Findings and Recommendations:

- The college had numerous bank accounts. Many reconciling items for various accounts were not resolved. The college should reassess the need for each of its bank accounts and should consolidate and close unnecessary accounts. It should determine the cause of differences between cash balances in the bank and the MnSCU accounting system and resolve them in a timely manner. (Finding 1, page 6)

- The college did not sufficiently restrict employee access to certain computerized business systems. It should limit employee access to the minimal level necessary to complete their job responsibilities. (Finding 2, page 8)

- The college did not accurately and timely record certain financial activities on the MnSCU accounting system and did not completely reconcile all MnSCU accounting system accounts to the state's accounting system (MAPS). The college should accurately and timely enter all transactions. It should reconcile all of its MnSCU accounts in a timely manner. (Findings 3 and 4, pages 9-11)

- The college did not ensure that contract training revenues were properly deposited. It should record all contract training receivables in the accounting system. (Finding 5, page 14)

- The college did not adequately pursue its outstanding accounts receivable. It should pursue outstanding receivables and develop procedures for billing and record holds. (Finding 6, page 14)

- The college had a lack of separation of duties over revenue collection in the Coon Rapids campus bookstore. It should separate duties associated with the bookstore's cash receipts. (Finding 7, page 18)

Anoka Ramsey 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, administrative expenditures, and bookstore operations for the period from July 1, 1997, through March 31, 2001. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The college's response is included in the report.

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Chapter 1. Introduction

Anoka Ramsey Community College, established in 1965, is now a part of the Minnesota State Colleges and Universities (MnSCU) system. It is a multi-campus institution with campuses in Coon Rapids and Cambridge. Dr. Patrick Johns has served as college president since April 1991.

The college offers a wide array of educational opportunities to its students, including the first two years of a bachelors degree, many two-year career programs, and several student activities and sports programs. The college also provides noncredit continuing education and customized training programs. The college serves approximately 8,000 students annually.

The college is affiliated with two separate foundations, which are autonomous, non-profit organizations. One foundation represents the Coon Rapids campus, while the other represents the Cambridge campus. The college has a formal, signed contract with each foundation that outlines the duties and responsibilities of the parties. Both foundations received staffing and other administrative support from the college. In return, the foundations provided student scholarships, grants, and other funding that benefit the educational mission of the college.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General, Special Revenue, Expendable Trust, and Enterprise Funds for fiscal year 2000. 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.

Table 1-1
Anoka Ramsey Community College
Sources and Uses of Funds [1]
Fiscal Year 2000

	General	Special Revenue	Expendable Trust	Enterprise
Revenues:				
State Appropriations	$12,045,015	$ 0	$ 0	$ 0
Tuition and Fees	9,095,720	442,857	0	31,054
Sales and Services [2]	76,215	7,472	0	303,387
Federal Grants	0	1,789,926	0	0
State Grants	253,125	1,005,446	0	0
Private Grants	55,291	5,436	31,901	2,487
Other	36,820	8,560	64,020	23,522
Total Revenues	$21,562,186	$3,259,697	$ 95,921	$ 360,450
Expenditures/Expenses:				
Salaries	$15,930,329	$ 763,976	$ 0	$ 228,595
Purchased Services	1,934,640	114,872	0	108,276
Utilities	535,144	2,022	0	0
Contract/Consultants	33,058	3,600	0	8,228
Supplies	1,247,317	65,034	0	24,681
Financial Aid	160	2,352,206	35,431	68,168
Capital Expenditures	332,750	28,228	0	5,687
Debt Service-Interest	516,797	0	0	0
Other	260,751	89,504	748	46,136
Total Expenditures/Expenses	$20,790,946	$3,419,443	$ 36,179	$ 489,770
Transfers				
Transfers-In	$ 197,771	$ 11,857	$ 0	$ 356,676
Transfers-Out [4]	(59,318)	(19,772)	0	(391,941)
Net Transfers	$ 138,453	$ (7,915)	0	$ (35,265)
Change in Fund Balance	$ 909,693	$(167,661)	$ 59,742	$ (164,585)
Beginning Balance [3]	2,761,672	272,730	307,060	1,825,987
Ending Fund Balance [5]	$ 3,671,365	$ 105,069	$366,802	$1,661,402

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 (early-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. Long-term liabilities are not reported in the General or Special Revenue Funds. Beginning and ending balances do not include all assets, such as accounts receivables, or long-term liabilities, such as debt and compensated absences. The college compensated absence liability at June 30, 2000, was approximately $1.6 million for the General Fund. The college has been unable to reconcile its cash balance recorded on the accounting system to actual cash in the bank. As a result, the beginning and ending fund balances shown on this table may be misstated. We discuss this issue in Chapter 2, Finding 1.

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

Sales and Services, gross	$2,005,340
Cost of goods sold	(1,701,953)
Sales and Services, net	$ 303,387

Note 3: The college erroneously recorded $117,917 of state work study revenue into a clearing account in fiscal year 1999 instead of into the Special Revenue Fund. We have increased the Special Revenue Fund beginning fund balance to correct this error.

Note 4: The transfers out include intrafund activity in the Special Revenue Fund and the Enterprise Fund of $73,428 and $65,514, respectively. We have eliminated this activity from the transfer out total. The corresponding intrafund transfer in activity did not occur until fiscal year 2001.

Note 5: The Board Designated Reserve at June 30, 2000, is $1.3 million in the General Fund. Also, $186,045 of the ending fund balance is reserved for future obligations, such as Special Dedicated Appropriations, outstanding encumbrances, and faculty contractual commitments.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

College internal controls provided reasonable assurance that it operated within available financial resources and complied with applicable legal provisions and management's authorization. We found, however, that the college had the following internal control weaknesses that impacted the safeguarding of assets and the recording of financial activities on the college's accounting systems:

- ***The college had numerous bank accounts, one of which had not been reconciled. Many reconciling items for various accounts were not resolved in a timely manner.***
- ***The college did not sufficiently restrict employee access to certain computerized business systems.***
- ***The college did not accurately and timely record certain financial activities on the MnSCU accounting system.***
- ***The college did not completely reconcile all MnSCU accounting system accounts to the state's accounting system (MAPS).***

The college maintained an appropriate operating relationship with its two foundations.

As required by the MnSCU system office, the college used the MnSCU accounting system to initiate most transactions and record its financial activity. For funds held in the state treasury, MnSCU accounting interfaces into MAPS to generate warrants from the state treasury. The college also administers funds in local bank accounts, separate from the state treasury, for enterprise and special revenue activities, such as the bookstore and student financial aid.

Audit Objectives and Methodology

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

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

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

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

- Did the college's internal controls provide reasonable assurance that it had an appropriate operating relationship with its foundations?

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 its two foundations.

Conclusion

The college's internal controls provided reasonable assurance that it operated within available financial resources and complied with applicable legal provisions and management's authorization. We found, however, that the college had a number of internal control weaknesses impacting the safeguarding of assets and recording of financial activities on the college's accounting systems. The college had numerous bank accounts, one of which had not been reconciled. Many reconciling items were not resolved in a timely manner. In addition, the college did not sufficiently restrict employee access to computerized business systems. Finally, the college did not accurately and timely record certain financial activities on the MnSCU accounting system and did not reconcile all MnSCU accounts to MAPS, the state's accounting system.

Although the college generally maintained sufficient collateral on its bank accounts, one account was undercollateralized by approximately $50,000 in January 2001. The undercollateralization was due to a transfer of funds from that account that was not performed in a timely manner.

The college maintained an appropriate operating relationship with its two foundations.

1. PROR FINDING NOT RESOLVED: The college had an excessive number of bank accounts, did not reconcile one account, and did not resolve reconciling items in a timely manner.

Bank Accounts

As of June 2001, the college was still using five bank accounts for its day-to-day financial activities. The "all college" account is the college's main bank account. Generally, the college deposited all incoming receipts and made most of its local disbursements from this account. The

Coon Rapids campus had an additional account it used for credit card transactions. The college electronically transferred receipts from this account to the "all college" account. The Cambridge campus used three additional bank accounts. It used a "clearing account" for bookstore and business office receipts, except for credit card collections. College staff initiated daily electronic transfers to move money from this account to the "all college" account. Cambridge used another account for credit card activities. The college wrote a manual check each day to move funds from this account to the clearing account. The Cambridge campus used a third account for imprest cash and student payroll. All five of the accounts described above are checking accounts, except for the account used for the Coon Rapids campus credit card transactions. As of March 2001, the college also had five active savings-type accounts.

Having multiple accounts creates additional work for college staff. Each account must be reconciled, and funds must be transferred between the accounts on an ongoing basis. As discussed below, some of these transfers did not occur in a timely manner, resulting in ongoing reconciling items between some of the accounts. In addition to extra work, multiple accounts increased the risk of errors or irregularities.

Bank Account Reconciliations

The college was not able to successfully reconcile the cash balance in its "all college" checking account to the MnSCU accounting system cash balance. Through November 2000, the bank account had a consistent unidentified difference totaling $2,900 more than the accounting system. However, beginning in December, the difference fluctuated each month. For example, in February and March 2001, the bank account had $13,600 and $176,900 less than the accounting system. In April 2001, the bank account had $3,400 more than the accounting system.

In addition, the "all college" account had many reconciling items carried forward from month to month. For example, the April 2001 reconciliation showed items totaling $158,800 that had been carried forward since July 2000. These items primarily included receipts that were deposited in the Cambridge campuses clearing account that were not properly transferred to the "all college" account. According to the college, the two campuses disputed the amount to be transferred. In addition, the February 2001 reconciliation showed $445,000 in bookstore credit card collections, dated back as far as August 2000, that had not been transferred.

Three other college accounts had old, unresolved reconciling items. For example, the Cambridge campus imprest cash and student payroll account's April 2001 reconciliation had $37,000 in reconciling items to the accounting system that dated back to January 2000 and $56,000 in reconciling items to the bank account that had been carried forward since at least July 2000. One immaterial item dated back to November 1999. The Cambridge campus clearing account also had old reconciling items. For example, the April 2001 reconciliation had $143,000 in reconciling items dated back as far as June 1999. The majority of these items were the result of transfers not made to the "all college" account, as explained above. The college was unable to explain the reasons for some remaining reconciling items. This bank account was undercollateralized approximately $50,000 in January 2001. Had funds been transferred in a timely manner, collateral would have been adequate.

Finally, the college did not close two checking accounts in a timely manner. Over the audit period, the college closed four of its checking accounts. However, two of the accounts remained open for nearly one year after the college quit using them.

Recommendations

- *The college should reassess the need for each of its bank accounts and should consolidate and close unnecessary accounts.*
- *The college should determine the cause of differences between the cash balances in the bank and the MnSCU accounting system and should resolve the reconciling items in a timely manner.*

2. The college did not adequately limit access to its computerized business systems.

The college did not sufficiently limit access to some of its computerized business systems. Some college staff had unnecessary or incompatible access. The college should ensure that 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 June 2001

Audit Area	Business System	Weaknesses
Financial Management	MnSCU Accounting	2 staff had the unnecessary ability to update/change the college's chart of accounts.
		3 staff had unnecessary ability to enter journal and expense vouchers.
		4 staff had unnecessary ability to enter budgetary transactions.
Procurement and Disbursements	MnSCU Accounting	10 users had inappropriate access that gave them the ability to both encumber funds and enter vendor payments; 9 were business office staff and 1 was the bookstore manager.

Source: Auditor prepared.

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

Recommendations

- *The college should limit employee access to the minimal level necessary to complete their 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 effective detective controls, including periodic and independent review of the employees' work.*

3. The college did not timely and accurately record some transactions in the MnSCU accounting system.

The college did not properly record some financial activities in MnSCU accounting, including occurrence dates, certain bookstore transactions, payroll clearing account deposits, payroll error corrections, and financial aid federal cash drawdowns.

Vendor Payments

The college did not record the proper occurrence dates when recording vendor payments. Generally, the college used the vendor invoice date or date of payment as the occurrence date. The occurrence date should reflect the date the goods or services were received. This is especially important for determining the college's liabilities at year end for financial statement reporting. Failure to use the proper occurrence date may result in a material understatement of its liabilities. At the end of calendar year 2000, the business office changed its practices to use the proper date. However, the bookstore continued to use the incorrect date.

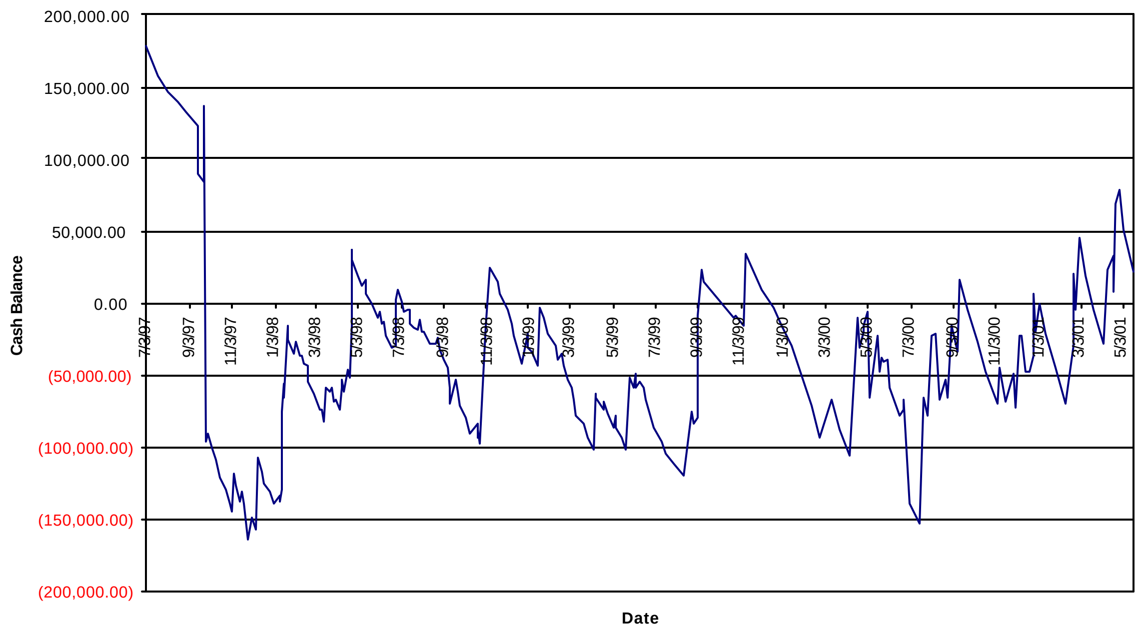
Bookstore

In three cases, the college did not record large bookstore transactions properly. In fiscal year 1999, the college moved $900,000 from the bookstore cost center to another cost center to fund a construction project. The college recorded this transaction as a supplies and material expenditure and as revenue from new book sales, rather than as intrafund transfers in and out. Similarly, when the college moved $86,000 remaining from the construction back to the bookstore cost center in fiscal year 2001, it again recorded it as an expenditure and a revenue. Bookstore expenditures and sales were both overstated as a result of these errors. We also identified $151,000 in fiscal year 1998 new book sales that the college erroneously recorded as sales of art supplies.

Payroll Clearing Account

The college did not make deposits into its payroll clearing account to correspond with payroll pay dates. The college uses a state treasury payroll clearing account to allow employees funded from local accounts, such as the bookstore, to be paid through the state's payroll system. The college should reimburse the payroll clearing account from local funds each payroll cycle. We found the college did not timely reimburse its payroll clearing account as evidenced by the frequent negative cash balances shown in Figure 2-1.

Figure 2-1
Payroll Clearing Account – Daily Cash Balances
July 3, 1997 through May 18, 2001



Source: State's Information Warehouse.

In addition, the college did not enter the appropriate adjusting entries into MnSCU accounting in a timely manner once payroll costs were paid and the account reimbursed. For example, in December 2000, the college entered the fiscal year 1996 through 2000 payroll adjustments that totaled $861,000. The adjusting entries are needed to eliminate cash and revenue balances in the payroll clearing account.

Payroll Error Cost Centers

The college did not post adjusting entries to resolve balances remaining in cost centers used to post payroll errors. When certain payroll coding errors occur, the payroll system posts the expenditures to special error cost centers. The college should resolve these errors each pay period and post adjusting entries to record the payroll transactions in the proper cost centers. As of June 2001, the college had not corrected $6,449, $10,112, and $32,739 posted to the error cost centers in fiscal years 1998, 1999, and 2000, respectively. According to the college, it verified that the payroll expenditures were for the correct amounts. However, it had not made the adjustments necessary to record them in the appropriate cost centers.

Financial Aid

The college did not record federal financial aid cash drawdowns on the accounting system in a timely manner. These delays are depicted in Table 2-2.

Table 2-2
Federal Financial Aid
Cash Drawdown Analysis

Date Received	Date Recorded	Days Delay
9/7/00	12/19/00	103
9/19/00	12/19/00	91
12/1/00	12/19/00	18
1/23/01	4/27/01	94
5/8/01	5/31/01	23
5/16/01	5/31/01	15

Source: College provided data.

Recommendation

- *The college should accurately and timely enter MnSCU accounting transactions, including:*
  - -- *use of correct occurrence dates for vendor payments;*
  - -- *reimbursement of payroll clearing and posting of adjusting entries biweekly;*
  - -- *use of proper revenue or expenditure categories; and*
  - -- *timely posting of federal financial aid drawdowns.*

4. The college did not completely reconcile its MnSCU accounting system accounts to the state's accounting system (MAPS).

The college had not reconciled its MnSCU accounting payroll-clearing account to MAPS in fiscal year 2001. In addition, the General Fund has an unresolved difference of approximately $32,000 as of June 2001. About half of the difference resulted from fiscal year 2000 differences while the rest pertain to prior fiscal years.

Recommendation

- *The college should reconcile all of its MnSCU accounts in a timely manner. It should resolve all differences and make adjusting entries as needed.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

The college designed and implemented internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorizations. However, the college did not ensure that contract training revenues were properly deposited. In addition, the college did not adequately pursue its outstanding accounts receivable. For items tested, the campus complied with significant finance-related legal requirements.

The college's business offices collected, deposited, and recorded credit-based tuition and fee revenue at each of its campuses. The college collected approximately $10 million in tuition, fees, and customized training revenues during fiscal year 2000. The resident and nonresident tuition rates for fiscal year 2000 were $70.04 and $140.08 per credit, respectively. In addition, the college collected revenue from customized training courses, including noncredit continuing education and contract training courses.
The college uses the Integrated Statewide Record System (ISRS) to register students that enroll in credit-based and continuing education courses. ISRS also assesses charges and tracks accounts receivable. The college did not, however, use ISRS to record contract training accounts receivable as discussed further in Finding 6. The business office was also responsible for recording revenues on the MnSCU accounting system.

Audit Objective and Methodology

Our review of the college's tuition and fee revenues, including customized training, focused on the following question:

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

To answer this question, we interviewed college employees to gain an understanding of the controls over billing, collecting, depositing, and recording of tuition, fee, and customized training revenues. We reviewed student registration and billing records 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 on the MnSCU accounting system.

Conclusions

The college designed and implemented internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorizations. However, it did not ensure that contract training revenues were properly deposited. In addition, the college did not implement adequate procedures to collect outstanding accounts receivable. For the items tested, the campus complied with significant finance-related legal requirements.

5. The college did not have adequate controls over contract training revenues.

The college did not implement controls to ensure contract training revenues were properly deposited. The Coon Rapids campus continuing education program manually billed its customers for contract training courses. Copies of invoices were forwarded to an employee in the business office. The same business office employee received incoming payments from customers. The college did not record these receivables on the MnSCU accounting system. Accordingly, the system did not reflect that payments should be received. The business office employee that received the payment simply e-mailed customized training staff indicating it had been received. Although the customized training staff monitored its receipts in total, there was no independent verification of the incoming receipts to the amounts billed and deposited.

Recording these receivables on the accounting system would provide the college with a formal record of contract training amounts the college has billed and the payments received. If receipts were lost or stolen, the accounting system would still report an outstanding receivable. In addition to being a control weakness, failure to record these receivables on the accounting system could also result in an understatement of accounts receivable at year end.

Recommendation

- *The college should record contract training receivables on the accounting system.*

6. The college did not adequately pursue outstanding accounts receivable.

The college did not have standard procedures for following up on unpaid charges. For example, the college did not define standard billing intervals after the start of the academic semester. Rather, the college billed students as time permitted. In addition, the college did not identify the point at which holds should be placed on student records and uncollected receivables should be submitted to the Minnesota Collection Enterprise (MCE), the state's centralized collection function. In fact, the college has not submitted past due accounts to MCE. Finally, the college did not define the point at which it writes off old uncollected accounts receivable.

Table 3-1 lists outstanding accounts receivable.

Table 3-1
Accounts Receivable
As of June 1, 2001

Academic Semester	Amount
Summer 1999	$17,722
Fall 2000	4,057
Spring 2000	15,719
Summer 2000	17,696
Fall 2001	7,370
Spring 2001	22,195
Summer 2001	22,684
Total	$107,443

Source: MnSCU accounting.

Recommendation

- *The college should adequately pursue outstanding receivables. It should develop procedures to define billing frequency and the point holds are placed on student records, when receivables should be forwarded to MCE for collection, and when uncollected receivables should be written off.*

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Chapter 4. Bookstore Operations

Chapter Conclusions

The college designed internal controls to provide reasonable assurance that its bookstore expenses were accurately processed, properly recorded in the accounting records, and in compliance with management's authorization. However, the college had a lack of separation of duties over revenue collection in the Coon Rapids campus bookstore. In addition, the Coon Rapids bookstore maintained a complete set of manual, duplicate accounting records resulting in inefficiencies and increased risk of errors.

The college operates a bookstore at each of its two campuses. A bookstore manager oversees operations at both bookstores. Each bookstore purchased textbooks, school supplies, clothing, and other items for resale. In fiscal year 2000, these purchases totaled $1.7 million. The bookstores collected approximately $2 million from the sale of these items in fiscal year 2000.

Audit Objective and Methodology

We focused our review of bookstore revenue and expenses on the following objective:

- Did Anoka Ramsey Community College design internal controls to provide reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

To meet these objectives, we interviewed bookstore staff to gain an understanding of the controls in place over bookstore revenue and expenses. We also performed analytical reviews and tested samples of transactions to determine if the college had adequate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

Conclusion

The college designed internal controls to provide reasonable assurance that its bookstore expenses were accurately processed, properly recorded in the accounting records, and in compliance with management's authorization. However, the college had a lack of separation of duties over revenue collection in the Coon Rapids campus bookstore. In addition, the Coon Rapids bookstore maintained a complete set of manual, duplicate accounting records resulting in inefficiencies and increased risk of errors.

7. PROR FINDING NOT RESOLVED: The college did not adequately separate bookstore activities on the Coon Rapids campus.

The college did not adequately separate some bookstore activities. The Coon Rapids bookstore manager had access to cash, maintained the accounting records, and periodically performed the daily cash reconciliation and deposit. Concentrating all of the duties in one employee increases the risk that errors or misappropriation of funds may occur and not be detected. Different employees should be involved in the collection of receipts, performing the day end reconciliation and entering the reconciled figures into the MnSCU accounting system. Without an adequate separation of duties, errors or irregularities could occur and go undetected.

Recommendation

- *The college should separate duties associated with the Coon Rapids bookstore's cash receipts.*

8. The college maintained a complete manual set of duplicate accounting records, resulting in inefficiencies and increased risk of error.

The college maintained a complete manual set of duplicate accounting records for the Coon Rapids' campus bookstore. The bookstore staff recorded its financial activity on the MnSCU accounting system. However, the bookstore also maintained these records in a manual form. Manual records included a general journal, purchase journal, cash disbursement journal, purchase return journal, accounts payable records, accounts receivable records, and other information. In some cases, the manual records were used to accumulate transactions for recording into the MnSCU accounting system. Maintaining duplicate records results in significant inefficiencies. In addition, manual records are more susceptible to error.

Recommendations

- *The college should discontinue maintaining manual, duplicate records.*

- *The college should enter detailed accounting entries directly into the MnSCU accounting system.*

Chapter 5. Payroll Expenditures

Chapter Conclusions

Anoka Ramsey Community College's internal controls generally provided reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied with material finance-related legal provisions and bargaining agreements. However, Finding 3 in Chapter 2 discusses issues regarding some payroll-related accounting transactions that the college did not enter in a timely manner.

Employee payroll represents the college's largest operating cost, annually totaling about $17 million. In fiscal year 2000, the college employed approximately 400 full and part-time employees at its two campuses. College employees fall under various compensation plans, including the Minnesota Community College Faculty Association, the Middle Management Association, the Minnesota Association of Professional Employees, the Excluded Administrators Plan, the Commissioner's Plan, and the American Federation of State, County, and Municipal Employees.

The college uses the state's payroll system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll and personnel information. SCUPPS stores salary and pay rate information, tracks leave accruals for faculty and excluded administrators, and interfaces transactions into SEMA4. SEMA4 calculates the amounts paid to employees and tracks leave accruals for classified employees.

The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions, including Anoka Ramsey Community College. To perform its contractual duties, the contractor needed access to certain retirement data on SCUPPS. The security clearance granted by the MnSCU system office provided broader access than needed, including the ability to create a new employee record, modify personnel data, and update employee assignments and salaries. However, the contractors were not given the ability to initiate or schedule payroll disbursements.

MnSCU accepts the level of risk caused by the contractor's broad access to update SCUPPS. The MnSCU system office did not design a unique security group to restrict the contractor's access to the minimum level necessary to fulfill its contractual duties. Rather, the MnSCU system office relied on various college detective controls to identify any unauthorized transactions that could potentially occur.

Anoka Ramsey Community College

Audit Objectives and Methodology

The primary objective of our review was to answer the following questions:

- 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 applicable legal provisions and management's authorization?

- For the items tested, did the college comply with material finance-related legal provisions and bargaining agreements?

To address these objectives, we interviewed college staff to obtain an understanding of the internal control structure over payroll expenditures, analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated payroll amounts to ensure proper payment. We also observed procedures for processing and reconciling payroll transactions, and we reviewed employees' access to its business systems.

Conclusions

Anoka Ramsey Community College's internal controls generally provided reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the material finance-related legal provisions and bargaining agreements. However, Finding 3 in Chapter 2 discusses issues regarding some payroll-related accounting transactions that the college did not enter in a timely manner.

Chapter 6. Other Administrative Expenditures

Chapter Conclusions

The college implemented internal controls to provide reasonable assurance that administrative expenditures were accurately processed and in compliance with applicable legal provisions and management's authorization. However, the college did not adequately restrict certain employees' access to the MnSCU accounting system, as discussed in Chapter 2, Finding 2. Also, as discussed in Finding 3, the college did not enter the proper occurrence dates when it recorded vendor payments on the accounting system.

For the items tested, the college complied, in all material respects, with the finance-related legal provisions.

The college incurred administrative expenditures for items such as purchased services, consultant and contract services, supplies, utilities, and capital purchases. These expenditures totaled approximately totaling $4.5 million in fiscal year 2000. Table 6-1 provides a breakdown of these expenditures.

Table 6-1
Administrative Expenditures
Fiscal Year 2000

Purchased Services	$2,157,788
Utilities	537,166
Consultant/Contract Services	44,886
Supplies	1,337,032
Capital Purchases	366,665
Total	$4,443,537

Source: MnSCU accounting system.

To purchase goods or services, college faculty or employees submit an authorized purchase requisition to the business office. The business office solicits bids, if necessary verifies that funds are available in the appropriate cost center, encumbers the funds, creates a purchase order, and sends it to the vendor. The business office also receives the invoices and makes payments upon confirming receipt of the goods or services.

Anoka Ramsey Community College

Audit Objective and Methodology

The primary objective of our review of other administrative expenditures was to answer the following question:

- Did the college's internal controls provide reasonable assurance that the other administrative expenditures were accurately processed, properly recorded in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

To meet these objectives, we interviewed college employees to gain an understanding of the internal controls over the procurement and disbursement process. We examined employees' access to its business systems, performed analytical reviews, and tested transactions. Finally, we reviewed the college's process to record and track its fixed assets.

Conclusions

The college implemented internal controls to provide reasonable assurance that administrative expenditures were accurately processed and in compliance with applicable legal provisions and management's authorization. However, the college did not adequately restrict certain employees' access to the MnSCU accounting system, as discussed in Chapter 2, Finding 2. In addition, as discussed in Finding 3, the college did not enter the proper occurrence dates when it recorded vendor payments on the accounting system. For the items tested, the college complied, in all material respects, with the finance-related legal provisions.

Chapter 7. Student Financial Aid

Chapter Conclusions

The college designed and implemented controls to provide reasonable assurance that state and federal student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable program requirements. For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, as discussed in Chapter 2, Finding 3, the college did not record federal cash drawdowns on the accounting system in a timely manner.

The college participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. Table 7-1 shows federal financial aid awarded to students during award year 2001.

Table 7-1
Federal Financial Aid Awards to Students
Award Year 2001

CFDA	Financial Aid Program	Payments
84.063	Federal Pell Grant	$1,419,703
84.032	Federal Family Education Loan (FFEL) - Subsidized Stafford Loan	$1,763,088
84.032	Federal Family Education Loan (FFEL) - Unsubsidized Stafford Loan	$2,201,078
84.033	Federal Work-Study (FWS)	$991,900
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$75,496

Source: MnSCU accounting system (ISRS) financial aid data as of July 18, 2001.

The college also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The college packages Minnesota State Grants with federal financial aid. The college awarded approximately $848,080 in Minnesota State Grants during award year 2001.

Audit Objectives and Methodology

Our review of the college's student financial aid programs focused on the following questions:

- Did the college design and implement controls to provide reasonable assurance that state and federal student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable program requirements?

- Did the college comply with applicable federal requirements over receiving federal funds?

To address these questions, we interviewed college staff to gain an understanding of the college's controls. We evaluated and tested controls over compliance for determining student eligibility, awarding, packaging, and disbursing federal financial aid. Finally, we evaluated and tested controls regarding compliance with federal requirements over receiving federal funds.

Conclusions

The college designed and implemented controls to provide reasonable assurance that state and federal student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable program requirements. For the items tested, the college complied with applicable federal requirements over receiving federal funds. However, Finding 3 in Chapter 2 explains that the college did not record federal cash drawdowns on the accounting system in a timely manner.

Status of Prior Audit Issues
As of July 10, 2001

Most Recent Audits

Legislative Audit Report 98-43, issued in August 1998, covered the college's material activities and programs, including: general financial management, tuition and fees, employee payroll, supplies and equipment expenditures, bookstore activities, federal and state financial aid, and the college's relationship with its affiliated foundations. The report covered the two fiscal years ended June 30, 1997, and contained nine findings. The college substantially implemented seven of the findings. The unresolved issues are addressed in the current audit report in Findings 1 and 8.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, **Legislative Audit Report 00-11**, issued in March 2000, and **Legislative Audit Report 99-19**, issued in March 1999, each examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the years ended June 30, 2000, 1999, and 1998, respectively. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. Report 01-15 discussed Anoka Ramsey Community College's inability to complete bank reconciliations by the financial reporting deadlines in fiscal years 1998, 1999, and 2000. Bank reconciliations continue to be a problem for the college, as discussed in Chapter 2, Finding 1.

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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AnokaRamsey
Community College

Office of the President

September 14, 2001

Mr. James R. Nobles
Legislative Auditor
1st Floor South, Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

This letter is in response to Anoka-Ramsey Community College's financial audit for the period July 1, 1997, through March 31, 2001. Anoka-Ramsey Community College takes audits very seriously. We, as an organization, will work diligently to resolve all audit findings.

Below is our response to each finding:

Finding #1: The college had an excessive number of bank accounts, did not reconcile one account, and did not resolve reconciling items in a timely manner.

Anoka-Ramsey Community College has worked on this finding and has reduced the number of checking accounts. Any remaining unnecessary accounts will be eliminated.

Anoka-Ramsey Community College will resolve the reconciling items between the bank and the MnSCU accounting system in a timely manner.

Responsible Staff:	Tim Fischer, Director of Fiscal services
Projected Completion Date:	December 31, 2001

Finding #2: The college did not adequately limit access to its computerized business systems.

Anoka-Ramsey Community College has reviewed the access of all business office personnel and deleted tasks that were not appropriate based upon the employee's job responsibilities.

Responsible Staff:	Marilyn Smith
Projected Completion Date:	Completed in September 2001

Finding #3: The college did not timely and accurately record some transactions in the MnSCU accounting system.

Anoka-Ramsey Community College has developed guidelines for establishing the proper occurrence dates for all invoices, and they are now being followed by all college employees.

The payroll clearing account will be reimbursed and the adjusting entries posted biweekly.

The college has corrected any miscoding of revenues and expenses.

Federal financial aid drawdowns will be posted the day the funds are accepted by the college's financial institution.

Responsible Staff: Tim Fischer
Projected Completion Date: December 2001

Finding #4: The college did not completely reconcile its MnSCU accounting system accounts to the state's accounting system (MAPS).

Anoka-Ramsey Community College will reconcile its MnSCU to MAPS in a timely manner. The adjusting entries for past differences will be entered.

Responsible Staff: Marilyn Smith
Projected Completion Date: December 2001

Finding #5: The college did not have adequate controls over contract training revenues.

Anoka-Ramsey Community College will enter the contract training receivables on the ISRS module when it is available.

Responsible Staff: Rosie Mortenson
Projected Completion Date: March 2002

Finding #6: The college did not adequately pursue outstanding accounts receivable.

Anoka-Ramsey Community College will develop a procedure to ensure all past due accounts are actively pursued and turned over to the Minnesota Collection Enterprise.

Responsible Staff: Tim Fischer
Projected Completion Date: December 2001

Finding #7: The college did not adequately separate bookstore activities on the Coon Rapids Campus.

Anoka-Ramsey Community College plans to have all accounting/bookkeeping functions of the bookstore transferred to the Business Office to assure separation of duties.

Responsible Staff: Tim Fischer
Projected Completion Date: March 2002

Finding #8: The college maintained a complete manual set of duplicate accounting records, resulting in inefficiencies and increased risk of error.

Anoka-Ramsey Community College will discontinue maintaining duplicate records and will enter accounting entries directly into the MnSCU accounting system.

Responsible Staff: Tim Fischer
Projected Completion Date: March 2002

We appreciate this opportunity to provide our response to each finding. If you have any questions or concerns, please contact me.

Sincerely,

/s/ Patrick M. Johns

Patrick M. Johns
President

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