OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Mesabi Range Community and Technical College

July 1, 1998, through June 30, 2001

JUNE 7, 2002 **02-36**

Financial Audit Division

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

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Northeast Higher Education District

Jeri Ann Jurkovich, Provost
Mesabi Range Community and Technical College - Eveleth Campus

Jill Peterson, Provost
Mesabi Range Community and Technical College - Virginia Campus

We have audited Mesabi Range Community and Technical College for the period July 1, 1998, through June 30, 2001. Our audit scope included: financial management, tuition and fees, payroll, administrative expenditures, and bookstore operations. Our scope did not include federal financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. We highlight the audit objectives and conclusions in the individual chapters of this report.

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 Mesabi Range Community and Technical College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The 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 Mesabi Range Community and Technical College, and members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 7, 2002.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: March 22, 2002

Report Signed On: June 4, 2002

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Carl Otto, CPA, CISA	Auditor-In-Charge
Patrick Phillips, CPA	Auditor
John Hakes, CPA	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Mesabi Range Community and Technical College and the Office of the Chancellor at the exit conference held on May 8, 2002:

Office of the Chancellor:	
Laura King	Vice Chancellor/Chief Financial Officer
Margaret Jenniges	Director, Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Kim McLaughlin	Regional Audit Coordinator
Jim Schneider	Director, Campus Accounting
Mesabi Range Community and Technical College:	
Joe Sertich	President, Northeast Higher Education District
Tony Bartovich	Director of Budget and Finance

Report Summary

Mesabi Range Community and Technical College operated within its available resources. However, the college had several internal control weaknesses that impacted the safeguarding of assets and the recording of financial activities in the accounting records.

Key Findings and Recommendations:

- The college and the Office of the Chancellor did not establish appropriate reports and management procedures to allow the college to adequately manage an environment where it shared its automated database and financial management duties with another college. We recommended that the college work with the Office of the Chancellor to create ad hoc reports and design control procedures to assure financial operating integrity. Also, the college should formally document their responsibilities in shared service arrangements with other colleges. (Finding 1, page 7)
- The college did not timely reconcile its main operating bank account and did not ensure that it had sufficient collateral to safeguard bank balances during peak enrollment periods. We recommended that the college timely complete the bank reconciliation, determine the reason for any differences, and make any adjustments needed to properly record its financial activity. We also recommended that the college ensure that its bank pledges sufficient collateral for the college's bank balance. (Finding 2, page 8)
- The college did not sufficiently limit access to its computerized business systems. We recommended that the college limit employees' access to the minimal level necessary to complete their job responsibilities. The college should also eliminate computer system access to incompatible functions or develop effective detective controls, such as periodic independent reviews of the employees' work. (Finding 3, page 9)
- The college did not enter the correct occurrence dates on the MnSCU accounting system for various types of expenditures. The occurrence date should be the date the college received the goods or services, which is when the college had a financial liability according to accounting principles. Incorrect occurrence dates may cause data on the MnSCU accounting system to misstate the financial statement amounts for year-end accrued liabilities. (Finding 5, page 18)

Mesabi Range Community and Technical 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, 1998, through June 30, 2001. The college's response is included in the report.

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Chapter 1. Introduction

Mesabi Range Community and Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. The college is comprised of a community college in Virginia and a technical college in Eveleth. It serves approximately 1,200 full-time students each school year. The college offers students a wide variety of liberal arts courses, including arts and humanities, social sciences, physical science, mathematics, and technology, that will transfer to a four year institution. The college also offers many career programs for people interested in getting into the workforce after one or two years of instruction.

The college was formerly combined with Vermilion Community College, located in Ely, in a single institution called the Laurentian Community and Technical College District. In 1999, the combined institution became part of a strategic alignment of MnSCU colleges in northern Minnesota called the Northeast Higher Education District. In fiscal year 2001, Mesabi Range Community and Technical College and Vermilion Community College operated as separate institutions within the Northeast Higher Education District. In addition to Mesabi Range Community and Technical College and Vermilion Community College, the Northeast Higher Education District currently includes Itasca Community College (in Grand Rapids) and Rainy River Community College (in International Falls).

The Northeast Higher Education District's mission is to provide quality higher education by developing a regional structure that will preserve college autonomy but will also align programs and services to better prepare residents for learning, employment, citizenship, and life. The MnSCU Board of Trustees appointed Dr. Joseph Sertich as president of the District effective November 1999. As president, Dr. Sertich coordinates the efforts of each college. Each college has its own provost to oversee daily operations. Dr. Jill Peterson is the provost for Mesabi Range's Virginia campus, and Jeri Ann Jurkovich as the provost of the Eveleth campus.

The Mesabi Range College Foundation provides financial support to Mesabi Range Community and Technical College students through scholarships and by funding various activities that benefit the college's public education mission. It is an autonomous, non-profit organization. The foundation receives an annual financial audit by a private CPA firm.

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Chapter 2. Financial Management

Chapter Conclusions

Generally, Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it operated within available financial resources and complied with applicable legal provisions and management's authorization. In addition, the college maintained an appropriate operating relationship with its foundation. However, the college had the following weaknesses that affected the safeguarding of assets, the recording of financial activities, and compliance with material legal provisions:

- ***The college and the Office of the Chancellor did not establish appropriate reports and management procedures to allow the college to adequately manage an environment where it shared its automated database and financial management duties with another college.***
- ***The college did not timely reconcile its main bank account and did not ensure that it had sufficient collateral to safeguard bank balances during peak enrollment periods.***
- ***The college did not sufficiently limit access to its computerized business systems.***

MnSCU received appropriations from the state's General Fund for the majority of its operational funding. The Office of the Chancellor allocated appropriated funds to the Northeast Higher Education District and the other universities and colleges based on an allocation formula. The Northeast Higher Education District further allocated the appropriation to its member colleges, including Mesabi Range Community and Technical College. In addition to the state appropriations, Mesabi Range Community and Technical College, like other colleges, retained tuition and other receipts to arrive at its total authorized spending level.

Once the college determined its authorized spending level, it allocated spending budgets to various administrative and academic departments. The business office monitored cost center budgets using various MnSCU accounting budget reports. The business office distributed these reports to college management and cost center managers and supervisors.

As required by the Office of the Chancellor, the college used the various modules within the MnSCU Integrated Statewide Record System to account for student records and the college's financial activities. Through this system's accounting modules (MnSCU accounting) the college initiated transactions and recorded its financial activity. For funds held in the state treasury, MnSCU accounting interfaced with the state's accounting system to generate payments from state appropriated funds.

Mesabi Range Community and Technical College

Mesabi Range Community and Technical College and the Vermilion Community College shared a single database on MnSCU's Integrated Statewide Records System. This database identified the colleges as the Laurentian Community and Technical College District with a single institution ID, three campus IDs (for the Ely, Eveleth, and Virginia campuses), and a shared ID, which the colleges mainly used for financial aid. In addition, the MnSCU accounting interface with the state's accounting system and the state's payroll/personnel system identified the colleges as the Laurentian Community and Technical College District on those systems. Sharing an institution ID prevented the college from effectively using many standard Integrated Statewide Records System reports designed to provide financial, personnel, and student information, as further explained in Finding 1.

The college continued some shared services with Vermilion Community College. For example, Vermilion staff monitored bank reconciliations for the account the colleges shared, while Mesabi Range processed payroll for both institutions.

The Office of the Chancellor also requires that all colleges use MnSCU accounting to account for money maintained in local bank accounts for enterprise and special revenue activities, such as the bookstore and student financial aid. During the audit period, the college administered its funds in several local bank accounts, but by the end of fiscal year 2001, the college actively used only two local accounts. Mesabi Range shared the main checking account with Vermilion Community College. The colleges used that account as the state depository for transfer of funds into the state treasury, for managing the federal and state cash requests of the financial aid programs, and for managing their enterprise activity funds. Mesabi Range used a second account for activity related to federal Perkins Loan collections.

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 applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that it properly recorded its financial activities on MnSCU accounting and the state's 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 foundation?

To answer these questions, we interviewed college personnel to gain an understanding of how the college used MnSCU accounting and the state's accounting system to record its financial activity. We gained an understanding of state treasury and local bank account management controls, such as budget monitoring and reconciliations. 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. We also reviewed local bank activity to determine compliance with material finance-related legal provisions. In addition, we reviewed the appropriateness of employee access to MnSCU's business systems and the college's relationship with its foundation.

Conclusions

Generally, Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it operated within available financial resources and complied with applicable legal provisions and management's authorization. However, the college had a number of weaknesses that affected the safeguarding of assets, recording of financial activities, and compliance with material legal provisions. As explained in Finding 1, the college and the Office of the Chancellor did not establish appropriate reports and management procedures to allow the college to adequately manage an environment where it shared its automated database and financial management duties with another college. Also, the college did not timely reconcile its main bank account and did not ensure that it had sufficient collateral to cover deposits during peak enrollment periods, as discussed in Finding 2. In addition, as discussed in Finding 3, the college did not sufficiently restrict certain computer security clearances. The college maintained an appropriate operating relationship with its foundation.

1. The college and the Office of the Chancellor did not establish appropriate reports and management procedures to allow the college to adequately manage an environment where it shared its automated database and financial management duties with another college.

Mesabi Range Community and Technical College cannot effectively use many of the standard reports available on the Integrated Statewide Records System because the reports combine data for Mesabi Range with Vermilion Community College. The Office of the Chancellor created over 400 standard Integrated Statewide Records System reports to provide colleges with important financial, personnel and student information. These reports are key to a college's ability to oversee financial management functions. Many of these reports summarize financial data at the institution ID level and, consequently, show combined data for Mesabi Range and Vermilion as the "Laurentian Colleges".

For example, Mesabi Range can only produce a trial balance report at the institution ID level. This report should be an important report for Mesabi Range's administrators to assess the integrity of its recorded financial transactions. It was not an effective report for Mesabi Range because it summarized financial information for the Laurentian Colleges, including Vermilion. The report's query options did not allow Mesabi Range to create the report at a campus ID level. If, for example, they could have reviewed the Mesabi Range trial balance report for its bookstore operations, the Mesabi Range business office and bookstore managers may have detected a $370,000 error made by Office of the Chancellor's staff.

In addition, a standard waiver report designed to allow a supervisor to verify that cashiers have only waived tuition in compliance with MnSCU policy does not distinguish Mesabi Range waiver transactions from Vermilion waiver transactions. In this case, MnSCU's Internal Audit Division helped the college develop an ad hoc waiver report to provide the colleges with meaningful information. The Office of the Chancellor will need to ensure that it updates ad hoc reports whenever it changes the standard Integrated Statewide Record System reports or develops report enhancements.

The colleges can only control access to the MnSCU Integrated Statewide Record System at the institution ID level. Therefore, any access granted to staff at one college allows that person the same access at the other college. To lessen the significant risk created by this shared security access, the Mesabi Range staff works closely with Vermilion staff to coordinate and monitor system access rights. The Northeast Higher Education District may need to establish broader oversight to mitigate the system access weaknesses that exist as a result of a shared institution ID.

Finally, the colleges continued to share some administrative duties as they did when they were the Laurentian Community and Technical College District. For example, the Vermilion Community College staff continued to be responsible for the reconciliation of the colleges' shared bank account. Mesabi Range Community and Technical College staff continued the reconciliation of MnSCU accounting to the state's accounting system and processed personnel and payroll transactions for both institutions. The colleges have not formalized these responsibilities.

Recommendations

- *Mesabi Range Community and Technical College should work with the Office of the Chancellor to create ad hoc reports and design control procedures to assure financial operating integrity for each college.*

- *The colleges should formally document their responsibilities in shared service arrangements with other colleges.*

2. The college did not timely reconcile its main operating bank account and did not ensure that it had sufficient collateral to safeguard bank balances during peak enrollment periods.

For nine months, from August 2000 through April 2001, the college did not reconcile the cash balance in its main bank account to the MnSCU accounting system's cash balance. The Vermilion employee responsible for the reconciliation when the colleges were in the Laurentian District, and after the subsequent split into the separate colleges, left Vermilion in the fall of 2000. The colleges requested assistance from the Office of the Chancellor, but discovered toward the end of fiscal year 2001 that the Office of the Chancellor's staff had not done the reconciliations. Since then, the colleges worked with the Office of the Chancellor to reconcile the account from that point forward. As of March 2002, the college had reconciled the account from May 2001 through August 2001 and was working with the Office of the Chancellor to get the reconciliations up to date. There was an unreconciled difference of $8,205 from the period of August 2000 through April 2001. Reconciliation of the recorded cash balance to the bank balance is a fundamental control to ensure that the college's accounting records accurately reflect its financial activity.

The colleges did not close three of the local bank accounts that they no longer used. As of March 2002, there was a small cash balance remaining in each account. The colleges plan to wait until the bank reconciliations for the main account are current before officially closing the other accounts and moving the cash in them to the main account.

In addition, while the college generally maintained sufficient collateral on its main bank account, it did not have sufficient collateral for the account during peak enrollment periods in fiscal year 2002. (The colleges could not provide documentation of the value of pledged collateral before fiscal year 2002.) During September 2001 and January 2002, there were four days each month when the value of the pledged collateral reported by the bank at month end was not sufficient to cover the cash balance in the colleges' main bank account. For those days, the bank's pledged collateral fell short of required amounts by as much as $903,000. Without sufficient collateral, the college's bank balances are subject to loss. Minn. Stat. Section 118A.03 requires that banks provide collateral for uninsured public funds of at least ten percent more than the amount on deposit. Since the Federal Deposit Insurance Corporation (FDIC) insures a level of $100,000, the bank must provide collateral for any balance more than that amount. Staff could not substantiate their claim that they had arranged for increased collateral during January 2002. Effective April 1, 2002, the bank agreed to monitor the cash balance in the colleges' account and make necessary collateral adjustments daily. The college should periodically monitor the account and verify that the bank's pledged collateral is sufficient, particularly during peak periods.

Recommendations

- *The college should timely complete the bank reconciliation, determine the reason for any differences, and make any adjustments needed to properly record its financial activity.*
- *The college should close any extraneous bank accounts.*
- *The college should ensure that its bank pledges sufficient collateral for the college's bank balance.*

3. PRIOR FINDING PARTIALLY RESOLVED: The college did not sufficiently limit access to its computerized business systems.

Beyond the overriding security weakness that Vermilion staff can access data and record transactions for the Mesabi Range Community and Technical College, and vice-a-versa, as explained in Finding 1, the college did not sufficiently limit access to some of its computerized business systems. While the college has improved its oversight of system access security, some college staff had unnecessary or incompatible access. For example, three employees had incompatible clearances to the MnSCU accounts receivable module. The clearances gave the employees full access to perform a variety of cashiering, accounts receivable, receipt correction, and tuition waiver functions. Also, one employee had the unneeded ability to enter journal and expense vouchers, and two Hibbing Community College employees had unnecessary personnel/payroll access. In addition, two employees of the Northeast Service Unit had the unneeded ability to update the college's chart of accounts, enter journal and expense vouchers, and enter budgetary transactions.

The college should ensure that employee access is necessary based on job responsibilities. 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 employees' access to the minimal level necessary to complete their job responsibilities.*

- *The college should eliminate computer system access to incompatible functions, or develop effective detective controls, such as periodic independent reviews of the employees' work.*

Chapter 3. Tuition, Fees, and Customized Training

Chapter Conclusions

Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded tuition and fee collections in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees. However, as discussed in Chapter 2, Finding 3, the college did not sufficiently restrict employees' access to the college's computerized business systems.

Mesabi Range Community and Technical College offered credit classes, customized training, and continuing education credit and non-credit classes. Table 3-1 shows the tuition and fee charged during fiscal years 1999 through 2001. The MnSCU Board of Trustees policy allowed the types of tuition and fees charged by the college. The college collected approximately $3.3 million in credit and non-credit tuition and fees during fiscal year 2001.

Table 3-1
Tuition and Fees per Semester Credit
Fiscal Years 1999 through 2001

	1999	2000	2001
Resident Rate	$65.60	$69.00	$72.10
Nonresident Rate	$131.15	$138.00	$144.20
Standard Fees	$9.65	$12.50	$12.50

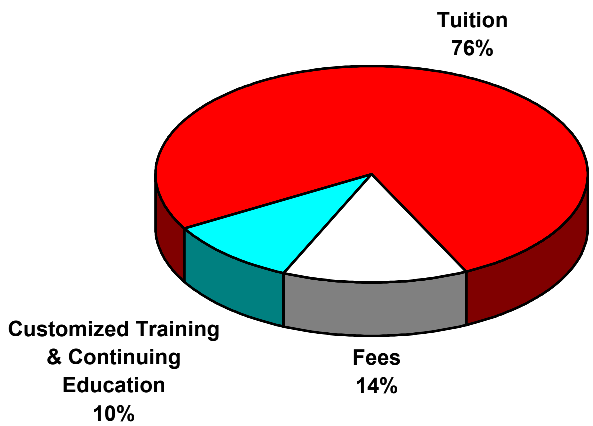
Source: Auditor prepared.

In addition to credit-based tuition revenue, the college offered continuing education courses to the public and developed customized training courses to meet the educational needs of a specific business or industry. The college determined tuition rates for customized training and continuing education classes on an individual course basis, considering local market conditions and the cost of instructor fees, overhead, and supplies and materials.

Mesabi Range Community and Technical College

Figure 3-1 shows the breakdown of revenue by type.

Figure 3-1
Tuition and Fee Revenue
Fiscal Years 1999 to 2001



Source: MnSCU accounting system.

Through fiscal year 1999, the college registered, billed, and collected tuition and fees on the College Information System. Each day, 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 the cash registers and post transactions to MnSCU accounting and the state's accounting system. An employee delivered the deposit to the bank each day.

Beginning in fiscal year 2000, the college used the MnSCU Integrated Statewide Record System accounts receivable module to register, bill, and collect tuition. The accounts receivable module accumulated various student charges. 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.

Generally, the college required students to pay tuition and fees, unless funded by financial aid or third parties, by established due dates. The college sent a series of four to five letters reminding students of their past due balance. The last of these letters notified the students that if they did not pay the amount due within 20 days, the college would refer the receivable to the Minnesota Collection Enterprise, the state's centralized collection function. The Minnesota Collection Enterprise pursued collection of the outstanding balance until the student paid off the balance or the collection agent determined it to be uncollectable.

Audit Objectives and Methodology

Our review of Mesabi Range Community and Technical College's tuition, fees, and customized training revenue focused on the following questions:

Mesabi Range Community and Technical College

- Did the college's internal controls provide reasonable assurance that it adequately safeguarded and accurately recorded its revenue collections in the accounting records, and that it complied with applicable legal provisions and management's authorization?

- For the items tested, did the college comply in all material respects with the significant finance-related legal provisions concerning tuition, fees, and customized training?

To answer these questions, we interviewed college employees to gain an understanding of controls over college revenue. We reviewed tuition and fee rates, accounts receivable records, and other accounting records to determine if the college charged students appropriate rates and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed the college's procedures for monitoring and collecting outstanding accounts receivable balances. We tested samples of transactions to determine if the college had adequate supporting documentation and accurately recorded the collections on the MnSCU accounting system.

Conclusions

The college's internal controls provided reasonable assurance that it adequately safeguarded and accurately recorded its tuition, fees, and customized training revenue collections in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied with significant finance-related legal provisions concerning tuition, fees, and customized training revenue. However, as discussed in Chapter 2, Finding 3, the college did not sufficiently restrict employees' access to the college's computerized business systems.

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Chapter 4. Payroll Expenditures

Chapter Conclusions

Mesabi Range Community and Technical College's internal controls provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records. However, the college did not regularly clear cash and revenue balances in the MnSCU accounting payroll clearing account. The college also did not adequately restrict certain employees' access to the MnSCU personnel/payroll system, as discussed in Chapter 2, Finding 3. For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans.

Mesabi Range Community and Technical College provided personnel and payroll services for itself and for Vermilion Community College. Payroll was the largest expenditure category for the college, totaling approximately $7 million for fiscal year 2001. College employees belonged to the following compensation plans:

- American Federation of State, County, and Municipal Employees
- Middle Management Association
- Minnesota Association of Professional Employees
- Excluded Administrators' Plan
- Commissioner's Plan
- Minnesota Community College Faculty Association
- United Technical College Educators

The college used the state's personnel/payroll system to process payroll information. The college monitored employee appointment information, personnel files, and pay rates in the State Colleges and Universities Personnel and Payroll System.

Audit Objectives and Methodology

Our review of personnel functions and payroll expenditures focused on the following questions:

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

- For the items tested, did the college comply, in all material respects, with material finance-related legal provisions concerning payroll?

To answer these questions, we made inquiries of college staff to gain an understanding of the internal control structure over the payroll and personnel process. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. Finally, we reviewed computer system security clearances for staff who had the ability to update payroll and human resources transactions.

Conclusions

The college's internal controls provided reasonable assurance that it accurately recorded payroll expenditures in the accounting records and that it complied with applicable legal provisions and management's authorization. However, as discussed in Finding 4, the college did not regularly clear cash and revenue balances in the MnSCU accounting payroll clearing account. The college also did not adequately restrict employee access to its human resource and payroll systems, as explained in Chapter 2, Finding 3. For the items tested, the institution complied, in all material respects, with the significant finance-related legal provisions concerning payroll.

4. The college did not clear cash and revenue balances in the MnSCU accounting payroll clearing account.

The college did not routinely enter the transactions necessary to eliminate the cash balance and offset the revenue transactions that result from the payroll clearing process. In July 2001, the college adjusted the payroll clearing account (which it shares with Vermilion Community College) by approximately $1.2 million for cash and revenue overstatements that had accumulated since fiscal years 1997. The college had not made any additional adjustments since then. At the end of January 2002, MnSCU accounting overstated cash and revenue in the MnSCU payroll clearing account by approximately $138,000.

The college used the MnSCU payroll clearing account because it pays some employees, such as bookstore staff, with local funds. Since these employees receive their paychecks through the state's personnel/payroll system using state treasury funds, the college uses the MnSCU payroll clearing account to move local funds to the state treasury. By moving cash and recording revenue in the payroll clearing account, the college initiates a sweep from the local bank account to the state treasury. While this achieves the desired result of reimbursing the state treasury for local payroll expenses, it results in overstated cash and revenue balances in the MnSCU payroll clearing account. The college needs to reverse this entry on a regular basis.

Recommendation

- *The college should regularly eliminate the cash balance and offset the revenue balance in the MnSCU payroll clearing account.*

Chapter 5. Administrative Expenditures

Chapter Conclusions

Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it accurately recorded administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, the college did not record the correct occurrence dates in the accounting system for purchased services, consultants, supplies, and equipment expenditures. In addition, the college improperly purchased a gift certificate for an employee's brother.

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

Mesabi Range Community and Technical College's administrative expenditures included payments for non-payroll items, such as purchased services, consultants, supplies, and equipment. The college spent approximately $1.9 million during fiscal year 2001 for these types of expenditures. The college also used approximately $1.3 million for capital improvements during fiscal years 1999 through 2001.

The purchasing process at the college begins when a faculty member or another employee completes a requisition for purchase and forwards it to the business office. The business office prepares a purchase order and initiates the purchase. The business office sends the invoice to the department receiving the goods or services, where an appropriate staff member authorizes the payment. Business office personnel process the payment on the MnSCU accounting system.

The college follows a similar process when purchasing fixed assets. To monitor the location and existence of material fixed assets, the business office uses the MnSCU equipment module to record all fixed asset purchases exceeding $2,000, as well as all computers or other sensitive items regardless of price. The business office updates the equipment module, recording changes, transfers, retirements, and other dispositions of assets. The college takes an inventory of its fixed assets every two years, as well as an annual inventory on all assets exceeding $10,000.

Audit Objective and Methodology

The primary objective of our review of Mesabi Range Community and Technical College's administrative expenditures was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that it accurately recorded administrative expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization?

- For those items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning administrative expenditures?

To answer these questions, we interviewed college employees to gain an understanding of the internal control structure over the procurement and disbursement processes for administrative expenditures. We examined security access to determine who could initiate payments in MnSCU accounting. We also performed analytical reviews and tested transactions for purchased services, consultants, supplies, and equipment expenditures to determine if the college appropriately procured goods and services and properly authorized, disbursed, and recorded expenditures in the accounting system. Finally, we reviewed the college's process to record and track its fixed assets.

Conclusions

Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it accurately recorded administrative expenditures in the accounting records and that it complied with applicable legal provisions and management's authorization. However, as discussed in Finding 5, the college did not record the correct occurrence dates in the accounting system for purchased services, consultants, supplies, and equipment expenditures. For the items tested, the college complied with significant finance-related legal provisions, but, as discussed in Finding 6, the college purchased a gift certificate to a dinner theater.

5. The college did not enter the correct occurrence dates on MnSCU accounting for purchased services, consultants, supplies, and equipment expenditures.

The college used incorrect occurrence dates in 17 of 46 administrative expenditure transactions, allowing the date to default to the payment date for 12 of the sampled transactions tested.

The occurrence date should be the date the college received the goods or services, which is when the college had a financial liability according to accounting principles. Incorrect occurrence dates may cause data on the MnSCU accounting system to misstate the financial statement amounts for year-end accrued liabilities. In fiscal year 2002, MnSCU's Internal Audit Division provided assistance to the college to improve occurrence date accuracy.

Recommendation

- *Mesabi Range Community and Technical College should use the occurrence date to record the date the college received the goods or services.*

6. The college improperly purchased a gift certificate for an employee's brother.

The college improperly purchased a gift certificate for an employee's brother in the amount of $152.50. While in travel status, the employee stayed at his brother's home in Maple Grove, Minnesota, instead of incurring lodging expense to the college. To show appreciation for the cost savings, the college bought a gift certificate to a dinner theater for the brother. MnSCU travel policy prohibits this type of payment and states, "Staying at the private residence of a relative or friend is not a reimbursable expense."

The college did not seem to have a pattern of inappropriate expenditures.

Recommendation

- *The college should seek repayment of this amount. In addition, the college should approve only valid purchases necessary to conduct its business activities.*

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Chapter 6. Bookstore Operations

Chapter Conclusions

Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it accurately recorded its bookstore revenue collections and disbursement transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, the college did not determine the indirect cost allocable to its bookstore operations and did not analyze the reasonableness of inventory usage.

For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore revenue and expenditure transactions.

Mesabi Range Community and Technical College operated two bookstores, one at the Virginia campus and another at the Eveleth campus. Revenues and expenses in the bookstore operations for fiscal year 2001 were approximately $505,000 and $496,000, respectively. The college employed bookstore managers at each campus and several work-study students provided assistance. The bookstores sold a variety of products, including textbooks, academic supplies, clothing, and technical trade gear.

Audit Objectives and Methodology

Our audit of the bookstore focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that it accurately recorded bookstore revenue collections and disbursement transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization?

- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore operations?

To answer these questions, we interviewed the bookstore and business office personnel to gain an understanding of the controls in place over bookstore revenues and disbursements. We tested samples of transactions to determine if the colleges had adequate supporting documentation and had accurately recorded the transactions on MnSCU accounting. We also conducted analytical procedures to determine whether the revenue and expenses recorded on MnSCU accounting were reasonable.

Conclusions

Mesabi Range Community and Technical College's internal controls provided reasonable assurance that it accurately recorded its bookstore revenue collections and disbursement transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, as discussed in Finding 7, the college did not determine the indirect costs allocable to its bookstore operations and did not analyze the reasonableness of its inventory usage. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore revenue and expense transactions.

7. The college did not determine the indirect costs allocable to its bookstore operations and did not analyze the reasonableness of its inventory usage.

In fiscal year 2001, the college charged the bookstores on the Virginia and Eveleth campuses $9,000 each for indirect costs without determining the value of the allocable costs. While the college can decide what share, if any, of the indirect costs it will charge to the bookstores' operations, it needs to determine the allocable costs using some reasonable basis.

The college did not use its bookstore inventory counts, along with purchases and sales data, to perform an inventory analysis. This analysis would help to determine if inventory items were lost or stolen, or if it collected appropriate amounts of revenue for items sold.

Recommendations

- *The college should determine the amount of allocable indirect costs.*
- *The college should use its bookstore inventory counts to identify any significant loss or theft and to assess the reasonableness of bookstore revenue.*

Status of Prior Audit Issues
As of March 22, 2002

Most Recent Audits

College Audit

Legislative Audit Report 99-39, issued in July 1999, covered the former Laurentian Community and Technical College District for the three fiscal years ending June 30, 1998. The report reviewed material activities and programs, including tuition, fees and customized training receipts, employee payroll, administrative expenditures, student financial aid, and bookstore and food service operations. The report contained six findings. Mesabi Range Community and Technical College substantially resolved five of those findings. The college still did not adequately control the access of certain employees to its computerized business systems, which we repeat as Finding 3 in our current audit report.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, and **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 years ended June 30, 2000 and 1999, respectively. These reports did not include any findings related specifically to Laurentian Community and Technical College or Mesabi Range Community and Technical College.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU's general purpose financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received an unqualified opinion for fiscal year 2001. As a part of the audit, the firm issued a management letter to MnSCU's Board of Trustees. The letter contained 13 comments on accounting, administrative, and operating matters. While the comments did not specifically mention Mesabi Range Community and Technical College, several of the matters, including bank reconciliations, collateralization of bank accounts, and segregation of duties, are concerns at Mesabi Range and are included in our report as Findings 2 and 3.

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. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing 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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MESABI RANGE
Community and Technical College

May 28, 2002

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Audit report of Mesabi Community and Technical College for the period July 1, 1998 through June 30, 2001. The college staff has reviewed the audit findings and recommendations and we respond in the order of the findings listed in your report.

Chapter 2 Financial Management

1. **The College and the Office of the Chancellor did not establish appropriate reports and management procedures to allow the college to adequately manage an environment where it shared its automated database and financial management duties with another college.**

Responsible Person: Tony Bartovich, CFO-MRCTC, and Carla Newman, CFFO-VCC.
Completed By: Fiscal Year 2003

The college chief financial officers will work with the office of the Chancellor to create ad hoc reports and design control procedures to assure financial operating integrity for both colleges. The college will formally document their responsibilities in shared service arrangements; this will be completed by June 30, 2002.

2. **The college did not timely reconcile its main operating bank account and did not ensure that it had sufficient collateral to safeguard bank balances during peak enrollment periods.**

   Responsible Person: Tony Bartovich, CFO-MR
   Completion Date: June 30, 2002

The reconciliation process was complete up to July 2001. Shortly after this, the employee designated to complete the bank reconciliation process left employment with the college. The college was working with the MNSCU financial reporting section personnel to bring the bank reconciliation up to date. Currently, the college has a consistent offsetting balance between May 2001 and March 2002. Further training will occur with MNSCU financial management staff and full responsibility for bank reconciliation process will be transferred to the college by the end of June 2002.
The college will close all remaining bank accounts and transfer balances to the main account upon the completion of the bank reconciliation process by the end of June 2002.
The college will work to assure that that the bank provides the proper collateral by notifying the bank of peak periods of need. The college will periodically check with the bank to verify that proper collateral is in place. The college will work with the bank to have a signed agreement providing for adequate collateral is pledged as needed.

3. PRIOR FINDING PARTIALLY RESOLVED: The college did not sufficiently limit access to its computerized business systems.

Responsible Person: Tony Bartovich, CFO, Patti Delich, HR Director
Completion Date: Immediately

The college has limited employees to the proper ISRS functions necessary to complete their assigned duties. The college has removed the two Hibbing employees access to its database. The college will work with MNSCU's ISRS security user group to allow better utilization of staff with needed ISRS security. An example is to allow someone PCS access in all appropriations except ENT and allow this employee to be authorized vendor payment authorization for ENT only. This would maximize the use of the employee while limiting the potential separation of duty conflicts.
The college CFO and Director of HR will quarterly review ISRS access with employees' current responsibilities and will make adjustments as required.

Chapter 4. Payroll Expenditures

4. The college did not clear cash and revenue balances in the MNSCU accounting payroll clearing account.

Responsible Person: Judy Anderson, Accounting Tech. Tony Bartovich, CFO
Completion Date: March 2001

The college is monthly eliminating the cash balance and offsetting the revenue balance in the MnSCU payroll Clearing account.

Chapter 5. Administrative Expenditures

5. The college did not enter the correct occurrence dates on MnSCU accounting for purchased services, consultants, supplies and equipment expenditures.

Responsible Person: Judy Anderson, Sue Spaeth, Lori Pascke, and Tony Bartovich.
Completion Date: Completed

College has been using the correct occurrence dates beginning with fiscal year 2002. Kim McLaughlin, Northeast MnSCU Internal Auditor runs regular reports testing use of the correct occurrence dates. The report is sent to the CFO to review and to verify that the correct occurrence dates are being used.

6. The College improperly purchased a gift certificate for an employee's brother

Responsible Person: Tony Bartovich, CFO
Completion Date: Completed

The employee has reimbursed the college for the amount of the gift certificate. The college believes that this was an honest error and that it is the only time that such a reimbursement has ever happened. The college has provided all college employees a copy of MnSCU travel policy that specifically does not allow for this type of reimbursement. College business office staff has been provided a copy of and instruction on all MnSCU and State travel regulations to prevent this type of error in the future.

Chapter 6. Bookstore Operations

7. The college did not determine the indirect costs allocable to its bookstore operations and did not analyze the reasonableness of its inventory usage.

Responsible Person: Tony Bartovich, CFO
Completion Date: June 30, 2002

College will determine a method to allocate indirect costs and will allocate such costs to the bookstore by June 30, 2002.
The college will work with MnSCU internal auditing to use inventory counts to identify any significant loss or theft to assess the reasonableness of bookstore revenue. This will be done at least annually.

We wish to thank the Legislative Auditor's staff for their review and recommendations. We were very appreciative of the professional manner they handled this audit of Mesabi Range Community and Technical College. If you have any follow-up questions or concerns, please contact Tony Bartovich at 218-744-7522 or "t.bartovich@mr.mnsuc.edu.

Sincerely,

/s/ Joe Sertich

Dr. Joe Sertich
President, NHED