OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Itasca Community College
July 1, 1998, through June 30, 2001

AUGUST 15, 2002 02-52

Financial Audit Division

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

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Dr. Joseph Sertich, President
Northeast Higher Education District

Dr. Michael Johnson, Provost
Itasca Community College

We have audited Itasca Community College for the period July 1, 1998 through June 30, 2001. Our audit scope included: tuition and fees, payroll, administrative expenditures, and bookstore activities. 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 Itasca Community 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 Itasca 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 August 15, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 5, 2002

Report Signed On: August 9, 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
Tom Donahue, CPA	Audit Manager
Susan Kachelmeyer, CPA, CISA	Auditor-In-Charge
Ellen Sibley, CPA, CIA	Senior Auditor
Kristen Peterson	Staff Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Office of the Chancellor and Itasca Community College at an exit conference held on July 31, 2002:

Office of the Chancellor:	
Laura King	Vice Chancellor/Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Kim McLaughlin	Regional Audit Coordinator
Itasca Community College:	
Joe Sertich	President, Northeast Higher Education District
Mike Johnson	Provost
Bill Maki	Dean of Students and Administration

Report Summary

Itasca Community College's internal controls provided reasonable assurance that it operated within its available financial resources, properly recorded its financial activities on MnSCU accounting and the state's accounting systems and complied with applicable legal provisions and management's authorization.

Key Findings and Recommendations:

- The college did not maintain sufficient collateral to secure funds in its local bank account. We recommended that the college continue to monitor its deposit activity and adjust the pledged collateral accordingly. (Finding 1, page 6)

- The college did not adequately monitor user access to the college accounting systems. We recommended that the college restrict access to those functions necessary for its employees to perform their assigned duties. We also recommended that the college should designate an individual with responsibility for monitoring system security to ensure users do not have incompatible access and periodically review system user security reports. (Finding 2, page 7)

- The college needs to strengthen controls over certain receipts and adjustments and to timely deposit its computer education center receipts. We recommended that the college establish an adequate segregation of duties between the collection and recording of non-credit tuition receipts, maintain adequate supporting documentation for all waivers, approve and review all waivers independently of the cashiering function, and timely deposit computer education center receipts. (Finding 4, page 10)

- The college has not adequately addressed all concerns relating to its oversight of bookstore expenses. We recommended that the college separate incompatible duties or perform independent reviews to ensure the accuracy and completeness of its bookstore expenses. (Finding 6, page 18)

Itasca Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, payroll, other 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

Itasca Community College was established in 1922 and is located in Grand Rapids, Minnesota. On July 1, 1995, the college consolidated with other state universities, community colleges, and technical colleges to form the Minnesota State Colleges and Universities (MnSCU). In 1999, Itasca became part of a strategic alignment of MnSCU colleges in northern Minnesota called the Northeast Higher Education District. In addition to Itasca Community College, the Northeast Higher Education District currently includes Mesabi Range Community and Technical College (in Virginia and Eveleth), Vermilion Community College (in Ely), 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. Michael Johnson is the provost for Itasca Community College.

Itasca Community College has an affiliation with the Itasca Community College Foundation, an autonomous, non-profit organization. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds other activities that benefit the public educational mission of the college. A private CPA firm audited the financial statements of the foundation. The foundation's last complete financial statement audit was for the fiscal year ended June 30, 2001.

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Chapter 2. Financial Management

Chapter Conclusions

Itasca Community College's internal controls provided reasonable assurance that it operated within its available financial resources and complied with applicable legal provisions and management's authorization. Generally, the college's internal controls provided reasonable assurance that it properly recorded its financial activities on the MnSCU and the state's accounting systems. In addition, the college maintained an appropriate relationship with its foundation. However, the college did not have sufficient collateral for its bank accounts, did not adequately monitor access to its accounting systems, and did not clear one of its clearing accounts in a timely manner.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The Office of the Chancellor allocates appropriated funds to Itasca Community College and all universities and colleges based on an allocation formula. For fiscal year 2001, the Office of the Chancellor allocated approximately $4.5 million to the college. In addition, the college retains the tuition and other receipts it collects to arrive at its total authorized spending level.

MnSCU colleges use the MnSCU accounting system to initiate transactions. MnSCU accounting transactions update the state's primary accounting system (the Minnesota Accounting and Procurement System) through an automated interface. As required by the Office of the Chancellor, Itasca used the various modules within the MnSCU Integrated Statewide Record System to account for student records and the college's financial activities. For funds held in the state treasury, MnSCU accounting interfaced with the state's accounting system to generate payments from state appropriated funds. Itasca Community College also maintains a local bank account outside of the state treasury for funds controlled at the college level.

Audit Objectives and Methodology

Our review of Itasca Community College's overall financial management focused on 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?

Itasca Community College

- 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 the MnSCU accounting system as it pertained to each of the individual program areas discussed in the following chapters. We also interviewed college personnel to gain an understanding of management controls in place over the local bank accounts and the programs included in our audit scope. We reviewed selected MnSCU transactions posted to the accounting records to determine if Itasca Community College properly recorded revenue and expenditure transactions to MnSCU accounting for both state treasury and local bank activities. We reviewed system security reports to determine whether the college limited access to its computerized business systems. In addition, we reviewed the college's budgetary process with college administrators. Finally, we reviewed the relationship between the college and its related foundation.

Conclusions

Itasca Community College's internal controls provided reasonable assurance that it operated within its available financial resources and complied with applicable legal provisions and management's authorization. Generally, the college's internal controls provided reasonable assurance that it properly recorded its financial activities on MnSCU accounting and the state's accounting system. In addition, the college had an appropriate relationship with its foundation. However, the college did not maintain sufficient collateral for its local bank account, as explained in Finding 1. The college also did not adequately monitor access to its accounting systems, as discussed in Finding 2. In addition, the college did not regularly adjust cash and revenue balances in the MnSCU accounting payroll clearing account, as noted in Finding 3.

1. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The college did not maintain sufficient collateral to secure funds in its local bank account.

The college did not maintain sufficient collateral for its local bank account at certain times during the audit period. We also noted this as an issue in our prior audit report for the three years ended fiscal year 1998. In response to our prior audit recommendation, the college increased its collateral from $100,000 to $600,000 in January 1999. We reviewed the local bank account balances during the January 1, 1999 through June 30, 2001 period and noted that the account balances exceeded required collateral amounts approximately 28 percent of the time. During this time, the college was not monitoring its local account balances to determine the amount of required collateral.

Statutory provisions require that the maximum amount deposited in each depository shall not exceed 90 percent of the collateral. In August 2001, the local bank increased the amount of collateral pledged for the college's accounts from $600,000 to $1.4 million. Based on historical data, the increase appears to provide adequate coverage for Itasca Community College's bank account balances during most of the year.

Recommendation

- *The college should continue to monitor its deposit activity and adjust the pledged collateral accordingly.*

2. PRIOR AUDIT FINDING NOT RESOLVED: The college did not adequately monitor user access to the college accounting systems.

The college did not adequately monitor user access to the MnSCU accounting system, SEMA4, and SCUPPS. Initially, when the college implemented the Integrated Statewide Record System (ISRS) in late fiscal year 1999, the dean of students and administrative affairs set up staff in module based security groups within the ISRS accounting system. The dean sent the required paperwork to the MnSCU regional data center for implementation of the initial security clearance structure, but did not keep copies for college records. Since then, the dean has delegated responsibility for authorizing and deleting access to ISRS modules based on functional activities such as registration, human resources, payroll, and financial aid. However, the college did not establish a process to monitor total accounting system user access compatibility. No one person was responsible for limiting access to the college's business systems. We noted the following weaknesses in system security administration:

- College staff did not review the Northeast Service Unit, the Office of the Chancellor, and Hibbing users who had access to Itasca's database in MnSCU accounting and SCUPPS. In addition, college staff did not retain documentation for approval of security clearances. We also noted that the college did not remove one former Northeast Service Unit employee's access in a timely manner.

- Four campus employees have access to incompatible security groups within the MnSCU accounting system. Four employees have full access to the cashiering functions as well as the accounts receivable functions, including receivable increases, corrections, withdrawals, and waivers. As a result, each employee has the ability to collect and record cash receipts, update waivers, and record accounts receivable adjustments. Three of the four employees have incompatible access in the accounts payable module. Three of the four have incompatible access in the purchasing module. During the audit period, we noted no mitigating controls in place to independently review the accounting transactions entered into the MnSCU accounting system by these employees. Although we did not find any irregularities, this complete access to the cashiering, accounts receivable, and accounts payable functions could potentially give an employee the ability to misappropriate cash and conceal the theft in the college's accounting records.

- Three Northeast Service Unit employees have access to incompatible security groups within the MnSCU accounting system. All three employees have access to the accounting module of the MnSCU accounting system. Two of these employees have access to the accounts receivable module, and one employee has access to the purchasing module of the MnSCU accounting system. One of these three employees also has access to the accounts payable module and has the authority to approve the user's own security clearances.

- Seven college employees had incompatible access in the registration module of the MnSCU accounting system. This access allowed the employees to register students and to make accounts receivable corrections and adjustments.
- One Hibbing Community College employee had a security profile in SCUPPS and SEMA4 that allowed the user to perform both personnel and payroll functions.

The risk of errors and irregularities increases when the college does not monitor the security profiles for every user and allows users access to incompatible security groups.

Recommendation

- *Itasca Community College should improve security access controls by:*
  - *restricting employee access to those functions necessary for employees to perform their assigned duties;*
  - *designating an individual with responsibility for monitoring system security to ensure users do not have incompatible access; and*
  - *periodically reviewing system user security reports.*

3. The college did not properly record payroll expenditure activity in its auxiliary clearing account on the MnSCU accounting system.

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 August 2001, the college adjusted the payroll clearing account for cash and revenue overstatements totaling approximately $400,000 that had accumulated since fiscal year 1997. The college has made no additional adjustments since then. At the end of December 2001, MnSCU accounting overstated cash and revenue in the MnSCU payroll clearing account by approximately $42,000.

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 3. Tuition and Fees

Chapter Conclusions

Itasca Community College's internal controls provided reasonable assurance that tuition and fees collected were properly safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, Itasca Community College complied with the significant finance-related legal provisions concerning tuition. However, as discussed in Chapter 2, Finding 2, the college did not adequately monitor user access to the college's accounting system. In addition, the college did not adequately separate duties over non-credit tuition receipts and administrative adjustments. Also, the college did not deposit the computer education center receipts in a timely manner.

Itasca Community College offers both credit based and non-credit based courses. During the audit period, the college collected approximately $7.8 million in credit and non-credit tuition and fees. Of this amount, approximately $753,000 was for non-credit tuition.

For fiscal year 2001, the college collected tuition for credit courses at the Minnesota resident rate of $71.60 per credit and $143.20 per credit for non-residents. The college also collected various fees from students on a per credit basis, including application fees, student association fees, student life and activity fees, parking fees, and technology fees.

Late in fiscal year 1999, the college converted to the Integrated Statewide Record System (ISRS). ISRS contains various student data and registration modules to directly register, bill, and record tuition collections from students and interfaces directly with MnSCU accounting. Previously, the college maintained registration, billing, and accounts receivable information for each student on the College Information System, which interfaced with the MnSCU accounting system.

In addition to its credit programs, the college also collected revenue from non-credit programs consisting of customized training, continuing education, and computer education classes. The non-credit computer education classes are held off campus at the computer education center in downtown Grand Rapids. The computer education center provides computer classes to develop technology training for the general public and for industry and businesses around the Grand Rapids area.

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Audit Objectives and Methodology

Our review of Itasca Community College's tuition and fees focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that tuition and fees collected were properly safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

- For the items tested, did the college comply with the significant legal provisions concerning tuition?

To meet these objectives, we interviewed college employees to gain an understanding of the internal controls over billing, collecting, depositing, and recording tuition, fees, and non-credit tuition revenue. We reviewed student registrations, accounts receivable 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. We tested samples of transactions to determine whether deposits were timely made and if the college accurately recorded tuition and fee transactions on the MnSCU accounting system. We also analyzed and tested waiver and backdated transactions.

Conclusions

Itasca Community College's internal controls provided reasonable assurance that tuition and fees collected were properly safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as noted in Chapter 2, Finding 2, the college did not adequately monitor user access to the college's accounting system. In addition, as discussed in Finding 4, the college needs to strengthen controls over certain receipts and adjustments and to timely deposit its computer education center receipts. For the items tested, Itasca Community College complied with the significant finance-related legal provisions concerning tuition.

4. PRIOR AUDIT FINDINGS PARTIALLY RESOLVED: The college needs to strengthen controls over certain receipts and adjustments and to timely deposit its computer education center receipts.

The college did not establish an adequate separation of duties over continuing education receipts, computer education center receipts, or administrative adjustments. In addition, the college did not deposit the computer education center receipts in a timely manner.

Since our prior audit, the college reduced the risk of loss for certain non-credit receipts. Currently, the business office, and not the computer education center, invoices and collects payments from third-party payers. The college also developed written control procedures to address other separation of duties issues related to non-credit tuition receipts. However, the new procedures were not successfully implemented. The continuing education department had one individual who registered students, collected payments, and was responsible for invoicing, monitoring, and collecting accounts receivable. Also, we noted that any of several computer education center employees registered students and received payments.

The controls over administrative adjustments, such as certain waivers and backdated registration drops, were not adequate. The college failed to maintain proper documentation for waivers, except for employee tuition waivers. Additionally, the college's cashiers processed certain waivers without any apparent review. For non-credit classes, no authorization or approval seemed to be needed to perform backdated registration drops. The college had no set procedures for reviewing backdated transactions.

According to the computer education center staff, receipt collections vary but might average a few hundred dollars per day. Minn. Stat. Section 16A.275 requires that agencies daily deposit receipts totaling $250 or more in the state treasury. However, the person responsible for delivering bank deposits did not always pick up receipts daily at the center.

Recommendations

- *The college should establish an adequate segregation of duties between the collection and recording of non-credit tuition receipts.*

- *The college should maintain adequate supporting documentation for all waivers.*

- *Someone independent of the cashiering function should approve and review all waivers.*

- *The college should develop procedures for authorizing, approving, and reviewing backdated registration drops.*

- *The college should daily deposit the computer education center receipts when they accumulate to $250 or more.*

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Chapter 4. Payroll

Chapter Conclusions

Itasca Community College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, the college did not adequately monitor user access to perform personnel and payroll functions as discussed in Chapter 2, Finding 2. For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans.

Itasca Community College paid approximately $5 million in payroll expenditures during fiscal year 2001. Payroll is the college's largest expenditure, averaging approximately $200,000 per pay period. In 2001, the college employed approximately 190 employees, who are covered by 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

Itasca Community College received human resource services from the Human Resources Office at Hibbing Community and Technical College and received payroll services from the Northeast Service Unit. The Human Resources Office maintained staff appointments and assignments in SCUPPS. The administrative assistant at Itasca Community College collected and reviewed employee timesheets and forwarded them to the payroll section at the Northeast Service Unit for entry into SEMA4.

In 2001, the college improved its process for reporting leave for classified and unclassified employees. Leave balances for classified employees were maintained in SEMA4. SEMA4 automatically recorded leave earned based on the labor contract and years of service and automatically reduced leave balances for leave taken. Classified employees completed time sheets to report hours worked and leave taken. The college reconciled the leave reported on the timesheets with the leave recorded in SEMA4.

In 1999, the college did not have a process in place for evaluating the quality of the faculty's work. Some faculty evaluations dated back to the early 1990's. The MnSCU board policy states that each college shall have a process in place to evaluate employees, including faculty and administrators. Evaluations are to be completed on a regular basis consistent with requirements found in the applicable union contracts and compensation plans. In 2000, the college began the process of providing performance evaluations to faculty. In 2001, the college implemented procedures for a faculty performance appraisal system.

Audit Objectives and Methodology

Our review of Itasca Community College's payroll expenditures focused on the following questions:

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

- For the items tested, did the college comply 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. We reviewed the security level clearances for payroll and human resources personnel and the procedures used to process and reconcile payroll transactions.

Conclusions

Itasca Community College's internal controls provided reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as noted in Chapter 2, Finding 2, the college did not adequately monitor user access to perform both personnel and payroll functions. In addition, for the items tested, the college complied with material finance-related legal provisions concerning payroll.

Chapter 5. Other Administrative Expenditures

Chapter Conclusions

Generally, Itasca Community College's internal controls provided reasonable assurance that other administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as noted in Chapter 2, Finding 2, the college did not adequately monitor user access to the college's accounting systems. In addition, the college paid certain invoices before all of the goods were received. For the items tested, the college complied with the significant finance-related legal provisions concerning other administrative expenditures.

During the audit period, Itasca Community College incurred other nonpayroll administrative expenditures totaling approximately $5.5 million. These expenditures included purchased services, consultant/contract services, travel expenses, utilities, supplies, and equipment.

Table 5-1 shows the other nonpayroll administrative expenditures we reviewed during the audit period.

Table 5-1
Other Administrative Expenditures
Fiscal Years 1999, 2000, and 2001

Expenditures	1999	2000	2001
Purchased Services	$ 535,426	$ 583,029	$ 477,423
Consultant/Contract Services	363,270	515,099	439,200
Supplies	335,952	509,128	383,416
Total	$1,234,648	$1,607,256	$1,300,039

Source: MnSCU accounting system.

To initiate a purchase, a faculty or staff member submitted a completed purchase requisition to the dean of students and administrative affairs. The dean verified that funds were available in the assigned cost center budget and that proper procedures had been followed. The dean and another administrator approved the requisition. The information center director created the purchase order through the Purchase Control System and sent copies to the vendor and to the business office. After the business office staff had verified that the proper goods and services had been received, they paid the invoice through the MnSCU accounting system.

Itasca Community College

Audit Objectives and Methodology

Our review of Itasca Community College's other nonpayroll administrative expenditures focused on the following objectives:

- Did the college's internal controls provide reasonable assurance that other administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with significant finance-related legal provisions concerning other administrative expenditures?

To meet these objectives, we interviewed college employees to gain an understanding of the internal control structure over the procurement and disbursement process. We performed analytical reviews and tested a sample of transactions to determine whether the college had appropriate documentation, accurately recorded disbursement transactions on the MnSCU accounting system, and complied with applicable legal provisions.

Conclusions

Generally, Itasca Community College's internal controls provided reasonable assurance that other administrative expenditures were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, as noted in Chapter 2, Finding 2, the college did not adequately monitor user access to the college accounting systems. In addition, as discussed in Finding 5, the college paid certain invoices before all of the goods were received. For the items tested, the college complied with significant finance-related legal provisions concerning other administrative expenditures.

5. The college paid certain invoices before goods and services were received.

We noted that out of 17 invoices tested, the college paid 2 invoices before all of the goods or services had been received. These invoices were stamped, signed, and paid certifying that all goods were received and services performed. We noted, however, that the attached supporting documentation, in the form of packing lists, indicated that the goods and services had not been received as indicated on the invoice. In one instance, we noted that four out of five workstations ordered were received on September 29, 1998. The fifth workstation was not received until November 30, 1998. However, the college paid the total invoice of $1,500 on October 5, 1998. In the second instance, the college paid approximately $36,000 for a new lighting system for its performing arts center in early December 1998. However, the control booth panel, a primary component of the system, was not received until approximately two weeks later. The cost of the new lighting system also included training, which would have occurred after the control panel was received. By paying invoices before all goods and services are received, the college subjects itself to unnecessary collection risks and might have a difficult time holding the vendor accountable for delivering the remaining items or services.

Recommendation

- *The college should ensure that all goods and services are received before invoices are paid.*

Chapter 6. Bookstore Operations

Chapter Conclusions

Itasca Community College provided reasonable assurance that bookstore revenues were accurately recorded in the accounting records. However, controls did not provide reasonable assurance that bookstore expenses were accurately recorded in the accounting records. As noted in Chapter 2, Finding 2, the college did not adequately monitor user access to the college's accounting systems. In addition, the college did not adequately control or monitor bookstore operations. For the items tested, the college complied with the significant finance-related legal provisions governing bookstore operations.

During our audit period, Itasca Community College operated a bookstore providing students with textbooks, school supplies, and a limited quantity of personal items. Students had the option of paying by cash, check or credit card, or by using a financial aid voucher. The college used a cash register to track sales. Bookstore revenues and expenses recorded on the MnSCU accounting system for fiscal year 2001 totaled $580,487 and $488,260, respectively.

Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that it accurately recorded bookstore revenue collections and expense 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 with the significant finance-related legal provisions concerning bookstore operations?

To address these questions, we interviewed college employees to gain an understanding of the internal control structure in place over bookstore operations. We tested samples of transactions to determine if the college had adequate supporting documentation and had accurately recorded the transactions on MnSCU accounting. We also reviewed these transactions to determine if the college complied with material finance-related legal provisions.

Conclusions

Itasca Community College's internal controls provided reasonable assurance that bookstore revenues were complete and accurately recorded in the accounting records. However, the college's controls did not provide reasonable assurance that bookstore expenses were accurately recorded in the accounting records. As discussed in Finding 8, the college did not adequately control or monitor bookstore operations. For the items tested, the college complied with the significant finance-related legal provisions concerning bookstore operations.

6. PRIOR AUDIT FINDING PARTIALLY IMPLEMENTED: The college has not adequately addressed all concerns relating to oversight of bookstore expenses.

Since our prior audit, Itasca Community College had made progress in separating the incompatible duties of the bookstore manager. We saw significant improvement in the area of bookstore revenues. For example, the manager no longer records the majority of bookstore receipts in the accounting records. However, the bookstore manager was still responsible for certain incompatible activities and accounting functions in the expenditure area. The conflicting duties include receiving goods, performing a three-way match between the purchase order, invoice, and receiving documents, authorizing payments, and sending the check and remittance advice to the vendors. Also, as noted in Chapter 2, Finding 2, the college did not adequately monitor user access to the college's accounting systems. We found that the college did not adequately review or monitor the bookstore transactions. It is very important in situations where a complete separation of duties is impossible or impractical that a periodic independent review be performed to mitigate or reduce the risk of errors or irregularities.

Recommendation

- *The college should separate incompatible duties or perform independent reviews to ensure the accuracy and completeness of its bookstore expenses.*

Status of Prior Audit Issues
As of March 5, 2002

Most Recent Audit

College Audit

Legislative Audit Report 99-12, issued in February 1999, covered the period July 1, 1996, through June 30, 1998. The report focused on the college's material activities and programs, including tuition and fees, payroll, administrative expenditures, student financial aid, and bookstore activities. The report contained eight audit findings. One of the eight findings was in the area of student financial aid. Student financial aid was not within our audit scope, and the status of that finding will not be addressed in this report. The college resolved two of the other seven findings. We found that the college partially implemented our finding on monitoring its bookstore operations but still needs to address the issue repeated in Finding 8.

The college did not resolve its findings on collateral, monitoring of user access in its accounting system, inadequate internal controls over certain tuition receipts, and timely deposit of certain receipts. These issues are repeated as Findings 1, 2, and 4.

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 Itasca Community 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 Itasca Community College, several of the matters, including collateralization of bank accounts and segregation of duties, are concerns at Itasca and are included in our report as Findings 1 and 8.

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) system 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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ITASCA
COMMUNITY COLLEGE
Since 1922

August 6, 2002

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

Dear Mr. Nobles:

I appreciate the opportunity to respond to the audit report of Itasca Community College for the period July 1, 1998, through June 30, 2001. Our formal written response to the audit findings is enclosed.

From our Entrance Conference on January 14, 2002, through our Exit Conference on July 31, 2002, I was impressed with the competency and professionalism of your staff in conducting the audit. I personally want to thank Claudia Gudvangen, CPA, Deputy Legislative Auditor; Tom Donahue, CPA, Audit Manager; Susan Kachelmeyer, CPA, CISA, Auditor-in-Charge; Ellen Sibley, CPA, CIA, Senior Auditor; and Kristen Peterson, Staff Auditor.

We are pleased with the audit process. We are also committed to the continuous quality improvement, and we see this process as a way of helping us get better at what we do. Thank you for the opportunity to share the improvements for the findings.

Please contact me if you have questions regarding our response.

Sincerely,

/s/ Joe Sertich

Dr. Joe Sertich, Ed.D.
President

JS/cg

cc Mike Johnson, ICC Provost
Bill Maki, Dean of Student and Administrative Services
Kim McLaughlin, Regional Audit Coordinator

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Itasca Community College
Audit Response

August 6, 2002

Finding 1. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The college did not maintain sufficient collateral to secure funds in its local bank account.

The business office will closely monitor its deposit activity at regular intervals and adjust the pledged collateral as needed. If the college's current financial institution cannot provide the sufficient collateral necessary on a timely basis, the college will then consider other financial institutions that have the resources more readily available to do so.

Persons Responsible: Jane Chamberlain, Account Technician
Bill Maki, Dean of Student and Administrative Affairs
Projected Completion Date: Completed and Ongoing

Finding 2. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The college did not adequately monitor user access to the college accounting systems.

Itasca Community College will work toward improving security access controls by reviewing user access on a regular basis and retaining the documentation of each review. The college will work with the Office of the Chancellor in helping with the issues where incompatible access cannot be avoided. Mitigating controls will also be put in place for these situations.

Person Responsible: Bill Maki, Dean of Student and Administrative Affairs
Projected Completion Date: September 30, 2002

Finding 3. The college did not record payroll expenditure activity in its auxiliary clearing account on the MnSCU accounting system.

The college had not regularly completed the part of the procedure to eliminate the "artificial" cash balance from the payroll clearing account. With assistance from the Office of the Chancellor, the college began in winter 2002 of eliminating the cash balance and offsetting the revenue balance on a regular basis.

Person Responsible: Jane Chamberlain, Account Technician
Projected Completion Date: Completed and Ongoing

Finding 4. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The college needs to strengthen controls over certain receipts and adjustments and to deposit its computer education receipts.

Itasca Community College is currently in the process of reorganizing the center of continued learning, which includes continuing education and the computer education center. The reorganization will improve accountability with the staff and instructors reporting to one individual. Procedures were established in 1999 that adequately segregate duties in most cases and provide mitigating controls in the instances where duties are not adequately separated. However, these procedures were only followed for a short time. These established procedures will be implemented by the start of the 2002-2003 academic year and reviewed on a regular basis.

The college will develop a process to improve the waivers and backdated registration drops. Sufficient documentation will be retained and transactions will be reviewed on a regular basis.

Person Responsible: Bonnie Henriksen, Director of Center of Continued Learning
Bill Maki, Dean of Student and Administrative Affairs
Projected Completion Date: October 31, 2002

Finding 5. The college paid certain invoices before all of the goods were received.

The college will ensure that the goods have been received satisfactorily before invoices are paid.

Person Responsible: Janet Anderson, Business Office
Projected Completion Date: Completed and Ongoing

Finding 6. PRIOR AUDIT FINDING PARTIALLY IMPLEMENTED: The college has not adequately addressed all concerns relating to oversight of bookstore expenses.

The college implemented new procedures in 1999 that significantly improved the internal controls of the college bookstore operation. We did however fail to adequately separate the function of sending the check and remittance advice to the vendor. The college will ensure the periodic independent reviews currently in place sufficiently reduce the risk of errors or irregularities.

Person Responsible: Bill Maki, Dean of Student and Administrative Affairs
Projected Completion Date: Completed and Ongoing