Itasca Community College

Financial Audit
For the Three Fiscal Years Ended June 30, 1998

February 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-12

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SUMMARY

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Public Release Date: February 25, 1999 No. 99-12

Background

Itasca Community College was founded in 1922. The State Board for Community Colleges had jurisdiction over the college until June 30, 1995. 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). Dr. James Clarke served as the interim president until November 1996 when Dr. Joseph M. Sertich, Jr., became president.

Our audit scope covered the period from July 1, 1995, through June 30, 1998. We audited general financial management, tuition and fees, payroll, supplies and equipment purchases, bookstore operations, and the college's relationship with its foundation. We also reviewed the college's internal controls over compliance with federal and state student financial aid regulations for fiscal year 1998.

Conclusion

Itasca Community College operated within its available resources. Generally, the college properly recorded its state treasury and local account activity on the MnSCU and MAPS accounting systems in a timely manner. Generally, the college properly accounted for and controlled its local bank accounts and completed bank account reconciliation timely. We found, however, that the college did not have sufficient collateral for its bank accounts, subjected itself to security and safety risks in transporting receipts to the bank, and did not adequately monitor access to the college accounting systems.

Generally, the college designed and implemented controls to provide reasonable assurance that it accurately recorded tuition and fee revenue, payroll, supplies and equipment purchases, and student financial aid in the accounting records and complied with legal provisions and management's authorization. However, the college did not adequately separate duties over administrative adjustments or the receipt process over continuing education or the computer education center. In addition, the college did not adequately separate the awarding and disbursing functions for the Federal Family Education Loan Program. Also, the college did not deposit the computer education center receipts timely. Finally, the college did not adequately segregate bookstore duties or accurately record bookstore operations in MnSCU accounting or in its financial statements.

Itasca Community College responded positively to the eight audit findings presented in the report. In addition, the college has already taken significant action towards resolving the findings.

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Joseph Sertich Jr., President
Itasca Community College

We have audited Itasca Community College for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included : tuition and fees, payroll, supplies and equipment, and the bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998.

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

This report is intended for the information of the Legislative Audit Commission and the management of Itasca Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 25, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: September 18, 1998

Report Signed On: February 19, 1999

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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
Laura Peterson, CPA	Auditor-In-Charge
Susan Kachelmeyer, CPA	Senior Auditor
Terry Hanson	Senior Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Itasca Community College and MnSCU system office at an exit conference held on:

MnSCU System Office:	
Andrew Boss	Board Trustee
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Debbie Winter	Director of Campus Accounting
John Asmussen	Executive Director, Internal Auditing
Kim McLaughlin	Regional Audit Coordinator
Itasca Community College:	
Joe Sertich, Jr.	President
Bill Maki	Director of Finance and Facilities

Chapter 1. Introduction

Itasca Community College was established in 1922 and is located near Grand Rapids, Minnesota. The State Board for Community Colleges had jurisdiction over the college until June 30, 1995. 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). During fiscal year 1996, the college was part of the Arrowhead Community College Region that included the Itasca, Rainy River, Hibbing, Mesabi, Vermilion, and Fond du Lac Community College campuses. In fiscal year 1997, the Arrowhead Community College Region dissolved and Itasca Community College became a separate entity within MnSCU. Dr. James Clarke served as the interim president until November 1996 when Dr. Joseph M. Sertich, Jr., became president.

The mission of Itasca Community College is to provide a diverse population with affordable access to the best educational opportunities available in support of individual and community enrichment. The college had approximately 900 full-year equivalent students enrolled in credit-based classes during fiscal year 1998. In addition, the college provided continuing education, computer education, and customized training programs to the community.

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, 1997.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, Expendable Trust Funds, and Enterprise Funds for the fiscal year ended June 30, 1998.

Table 1-1
Sources and Uses of Funds (1)
Fiscal Year 1998

	General Fund	Special Revenue Fund	Expendable Trust Fund	Enterprise Funds
Beginning Fund Balance	$ 461,406		$ 1,173	$ 857,517
State Appropriation	3,714,653			
College Revenues:				
Tuition and Fees	$ 2,175,381			$ 29,510
Sale of Goods				522,760
Grants	6,500	1,206,048	196,350	9,932
Other	166,680		4,868	83,179
Transfers-In	86,337			
Subtotal Revenues	$ 2,434,898	$ 1,206,048	$ 201,218	$ 645,381
Total Resources	$ 6,610,957	$ 1,206,048	$ 202,391	$ 1,502,898
Expenditures/Expenses:				
Employee Payroll	$ 4,719,846	$ 237,662	$ 81,909	$ 92,075
Administrative Expenses	920,428	41,306	18,544	200
Supplies	320,409	66,688	8,605	1,651
Equipment	178,896	6,942	9,661	3,564
Grants	6,077	817,783		
Resale Purchases				377,485
Other	13,280	5,618		37,938
Transfers-Out	11,909			
Total Expenditures	$ 6,170,845	$ 1,175,999	$ 118,719	$ 512,913
Ending Fund Balance	$ 440,112	$ 30,049	$ 83,672	$ 989,985

Note 1: All funds are presented on the budgetary basis of accounting as of August 31, 1998. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1998, compensated absence liability is estimated to be $597,654.

Source: College prepared Table 1-1 from MnSCU accounting system as of August 31, 1998.

Chapter 2. Financial Management

Chapter Conclusions

Itasca Community College operated within its available resources. Generally, the college properly recorded all of its state treasury and local bank account financial activities on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for its local bank accounts and completed bank account reconciliations timely. In addition, the college maintained an appropriate relationship with its foundation. We found, however, that the college did not have sufficient collateral for its bank accounts, and it subjected itself to security and safety risks in handling and transporting certain receipt transactions. In addition, the college did not adequately monitor access to the college accounting systems.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Itasca Community College and all universities and colleges based on an allocation formula. As shown in Table 1-1, MnSCU allocated approximately $3.7 million to the college for fiscal year 1998. In addition, the college retains the tuition and other receipts it collects to arrive at its total authorized spending level.

On July 1, 1995, MnSCU implemented a new computerized accounting system, MnSCU accounting, and a new personnel/payroll system, the State Colleges and Universities Personnel/Payroll System (SCUPPS). MnSCU uses these new business systems to manage its financial operations. MnSCU requires each college and university to record all its financial activities on MnSCU accounting.

The State of Minnesota also implemented a new computerized accounting system (MAPS) and a new personnel/payroll system (SEMA4) that began operation on July 1, 1995. The state's accounting system is the primary accounting system for funds appropriated to state agencies. MnSCU institutions use MnSCU accounting to initiate transactions that involve appropriated funds. MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS then generates state treasury warrants for state appropriated expenses.

During the audit period, the college used two additional computer systems: 1) the Collegiate Information System (CIS) to register students, assess tuition and fees, track tuition and fee collections, and maintain student accounts receivable; and 2) the SAFE system to award financial aid to students.

MnSCU institutions also administer funds in local bank accounts separate from the state treasury. These funds include student financial aid, agency accounts, and enterprise activities, such as the bookstore and food service operations. During the audit period, the college maintained four checking accounts and one savings account. Beginning in fiscal year 1999, the college consolidated its checking activities into one account.

Audit Objectives and Methodology

Our review of Itasca Community College's overall financial management focused on the following questions:

Did the college design and implement internal controls to provide reasonable assurance that:

- Financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Money held in local bank accounts was adequately safeguarded and accurately reported in the accounting records?
- The college operated within available financial resources and in compliance with applicable legal provisions and management's authorization?
- The college had an appropriate operating relationship with related organizations?

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 the 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 operated within its available resources. Generally, the college designed and implemented internal controls to provide reasonable assurance that the college recorded its state treasury and local bank account financial activities on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for its local bank accounts and completed bank account reconciliations timely. In addition, the college maintained an appropriate relationship with its foundation. We found, however, that the college did not have sufficient collateral for its bank accounts, as explained in Finding 1. The college also subjected itself to security and safety risks in handling and transporting certain cash receipts as discussed in Finding 2. In addition, the college did not adequately monitor access to the college accounting systems as noted in Finding 3.

1. The college did not maintain sufficient collateral to secure funds in its local bank accounts.

The college did not maintain sufficient collateral for its local bank accounts. Statutory provisions require that the maximum amount deposited in each depository shall not exceed 90 percent of the collateral. The insufficient collateral resulted because the college staff misunderstood the coverage provided by the Federal Deposit Insurance Corporations (FDIC). The $100,000 insurance covers all accounts in a depository rather than $100,000 for each individual account. The college placed the cash balances in the local bank accounts at risk by not securing sufficient collateral.

Recommendation

- *The college should increase collateral for its local bank accounts to comply with statutory requirements.*

2. The college did not adequately reduce the security and safety risks associated with certain receipts of the college.

The college's maintenance staff transport receipts from the campus to the bank for daily deposit. The maintenance staff also deliver receipts from the computer education center (located off campus in downtown Grand Rapids) to the bank on Friday's for over the weekend safekeeping. The following Monday the business office retrieves the computer center receipts from the bank and processes them for deposit with Monday's deposit. The current process subjects the college and its staff to unnecessary security and safety risks during the transportation of receipts to and from the bank.

Recommendations

- *The college should investigate alternative methods of transporting receipts to the bank.*

- *The college should consider having computer education center receipts remitted directly to the business office.*

3. 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, CIS, SEMA4, and SCUPPS. The college established its users with access to the various systems. However, certain other users such as the Northeast Service Unit (NESU), MnSCU System Office, and Human Resource Office at Hibbing had the ability to setup users on MnSCU accounting and SCUPPS without authorization from the college. Itasca Community College has the primary authority and responsibility to ensure employee access is necessary based on job responsibilities. However, no one person was responsible for monitoring the user access to the various accounting systems. We noted the following weaknesses in the security administration of the college accounting systems:

Itasca Community College

- College staff did not review Northeast Service Unit, MnSCU Systems Office, and Hibbing users, who had access to Itasca's database in MnSCU accounting and SCUPPS.

- Four campus users, four systems office users, five NESU users, and one Hibbing user of MnSCU accounting had incompatible access to security group assignments. Each individual had access to both purchasing and accounts payable functions.

- The college did not remove one employee's CIS access when the employee no longer needed access. In addition, one employee had incompatible access to screens on CIS.

- One human resource office and two NESU employees had security profiles in SCUPPS and SEMA4 that allowed the user to perform both personnel and payroll functions. Finally, the human resource director at Laurentian College and 15 system office employees had access to update the college's SCUPPS data.

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 them to perform their assigned duties;*

  - *Assigning job responsibilities for monitoring user access to an individual to ensure users do not have incompatible access; and,*

  - *Periodically reviewing system user security reports.*

Chapter 3. Tuition Revenue

Chapter Conclusions

Generally, Itasca Community College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded and accurately reported in the accounting records. However, the college did not adequately separate duties over administrative adjustments, continuing education receipts, and the computer education center receipts. As mentioned in Chapter 2, the college did not adequately reduce the security and safety risks associated with certain receipts. In addition, for the items tested, the college complied with applicable finance-related legal provisions, except that computer education center receipts were not deposited timely.

Itasca Community College collected approximately $2.2 million in tuition and fees during fiscal year 1998. The college collected tuition at a resident rate of $42.85 per quarter credit plus fees for the 1997-98 school year. Table 3-1 shows the tuition, fees and non-credit tuition revenue for fiscal years 1996 through 1998.

Table 3-1
Tuition and Fee Revenue
Fiscal Years 1996, 1997, and 1998

	Fiscal Year		
Revenue Source:	**1996**	**1997**	**1998**
Tuition *	$1,624,419	$1,651,982	$1,802,861
Fees	146,134	199,731	207,494
Non-credit tuition	24,408	87,496	194,536
Total	$1,794,960	$1,939,209	$2,204,891

* Includes student activity fees and is net of tuition refunds.

Source: Fiscal year 1996, 1997, and 1998 tuition and fee data from the MnSCU accounting system as of August 31, 1998.

The college used the Collegiate Information System (CIS) to maintain registration and accounts receivable information on each student. The college used the MnSCU accounting system as its general ledger.

In addition to its main programs, the college provided non-credit programs consisting of customized training, continuing education, and computer education classes. The non-credit computer education classes are held at the computer education center in downtown Grand Rapids. The computer education center provides computer classes to develop technology training for industry and business around the Grand Rapids area.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded and accurately reported in the accounting records?

- Did the college comply with applicable legal provisions and management's authorization?

To answer these questions, we interviewed staff to obtain an understanding of the internal controls over billing, collecting, depositing, and recording tuition and fee revenues. We tested a sample of transactions to determine if deposits were made timely and if the college accurately recorded tuition and fee transactions on the MnSCU accounting system. We also reconciled the credits awarded, as recorded on CIS, to the tuition revenue reported on the MnSCU accounting system.

Conclusions

The college generally designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded, and accurately reported in the accounting records. However, the college did not adequately separate duties over administrative adjustments, continuing education receipts, and the computer education center receipts, as discussed in Finding 4. Also, as mentioned in Finding 2 of Chapter 2, the college did not adequately reduce the security and safety risks associated with certain receipts of the college. In addition, for the items tested, the college complied with applicable finance-related legal provisions, except that, computer education center receipts were not deposited timely, as explained in Finding 5.

4. The college did not establish an adequate separation of duties over continuing education receipts, computer education center receipts, or administrative adjustments.

The college did not adequately segregate duties related to non-credit tuition receipts. The college collected approximately $306,000 in non-credit tuition during the audit period. The continuing education department and the computer education center each had one individual who registered students, collected tuition, and provided the business office with the data for MnSCU accounting. In addition, the college did not reconcile non-credit receipts to course rosters. The inadequate segregation of duties and lack of an independent reconciliation increases the risk of errors or irregularities going undetected.

The college did not adequately segregate duties over administrative adjustments. Administrative adjustments are necessary to correct erroneous fees or assessments charged against a student's record. The director of finance not only authorized and posted administrative adjustments to student records but was also responsible for reviewing the adjustments made. The lack of an independent review increases the risk of errors or irregularities going undetected.

Recommendations

- *The college should establish an adequate segregation of duties between the collection and recording of continuing education and computer education receipts.*

- *The college should ensure that an independent person reconciles the receipts to the course rosters.*

- *The college should establish an adequate segregation of duties between the recording and reviewing of administrative adjustments.*

5. The college did not deposit the computer education center receipts timely.

The college deposited the computer education center receipts on a weekly basis. Minn. Stat. Section 16A.275 states that an agency shall deposit receipts totaling $250 or more in the state treasury daily. During fiscal year 1998, the college made 53 deposits totaling $163,960. Only six of the deposits made totaled less then $250. The remaining 47 deposits made averaged $3,477. The largest deposit was for $12,995. Receipts not deposited on a timely basis increase the risk of funds being lost or stolen.

Recommendation

- *The college should deposit its computer education center receipts when they accumulate over $250 daily.*

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Chapter 4. Payroll

Chapter Conclusions

Generally, Itasca Community College designed and implemented internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records. As mentioned in Chapter 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 and applicable compensation plans.

Itasca Community College paid approximately $5 million in payroll expenditures during fiscal year 1998. Payroll is the college's largest expenditure, averaging nearly $200,000 per pay period. College employees belong to the following compensation plans:

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

During fiscal year 1996, the college used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate and deduction information to determine the payments to employees. The MnSCU system office input payroll transactions into PPS from July 1995 through October 1996. Beginning in October 1996 the college processed its payroll information in the state's SEMA4 payroll system while continuing to use SCUPPS.

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 (NESU). The Human Resources Office, along with the MnSCU system office, maintained staff appointments and assignments in SCUPPS. The MnSCU system office entered personnel transactions into SCUPPS based on information it received from the Human Resources Office at Hibbing. The payroll section at NESU collected employee timesheets and entered the payroll into SEMA4.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records?

- Did the college comply with material finance-related legal provisions and applicable compensation plans?

To answer these objectives, we interviewed staff to obtain a general understanding of the internal control structure over the payroll and personnel processes. We also analyzed payroll transactions to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusions

Generally, Itasca Community College designed and implemented internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records. As mentioned in Chapter 2, Finding 3, 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 and applicable compensation plans.

Chapter 5. Supplies and Equipment

Chapter Conclusions

Itasca Community College designed and implemented internal controls to provide reasonable assurance that it accurately recorded supply and equipment expenditures in the accounting records and adequately safeguarded fixed assets. In addition, for the items tested, the college complied with material finance-related legal provisions and management's authorization.

Itasca Community College expended $397,353 for supplies and $199,063 in equipment for fiscal year 1998. Table 5-1 shows the supply and equipment expenditures for fiscal years 1996 through 1998.

Table 5-1
Supply and Equipment Expenditures
Fiscal Years 1996, 1997, and 1998

Expenditure Type:	1996	1997	1998
Supplies	$180,507	$165,074	* $397,353
Equipment	87,230	** 336,957	199,063
Total	$267,737	$502,031	$596,416

* Fiscal year 1998 increased due to the continuing education and computer education service center program expansion.

** Fiscal year 1997 increased due to technology purchases. The MnSCU Board of Directors increased the student technology fee charged which provided more funds for technology purchases.

Source: MnSCU accounting system as of August 31, 1998.

The Northeast Service Unit (NESU) provided the college with purchasing and accounts payable services. Based on purchase requisitions from Itasca Community College, NESU prepared purchase orders using MnSCU accounting. Once the college verified receipt of the goods and compared the vendor's invoice to the purchase order, it sent the approved invoice to NESU for payment.

Audit Objectives and Methodology

Our review of Itasca Community College's purchases of supplies and equipment focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records and adequately safeguarded fixed assets from theft or loss?

- Did the college comply with material finance-related legal provisions and management's authorization?

To answer these questions, we interviewed the college and NESU employees to gain a general understanding of the controls over the purchasing and payment processes. We reviewed a sample of expenditure transactions to determine if the college properly authorized, processed, and recorded the expenditures. For those sample items, we also determined if the college complied with material finance related legal provisions. Finally, we reviewed the college's process of recording and reviewing fixed assets.

Conclusions

The college designed and implemented internal controls to provide reasonable assurance that supply and equipment expenditures were accurately recorded in the accounting records and that fixed assets were adequately safeguarded. In addition, for the items tested, the college complied with material finance-related legal provisions and management's authorization.

Chapter 6. Bookstore

Chapter Conclusions

Itasca Community College did not design and implement internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately recorded in the accounting records. The college did not design and implement internal controls to provide reasonable assurance that bookstore expenditures were reasonable, properly authorized, and accurately recorded in the accounting records. The college also did not design and implement internal controls to provide reasonable assurance that bookstore inventories were adequately safeguarded or accurately reported in the accounting records. The college did not adequately control or monitor bookstore operations. In addition, the college did not accurately record bookstore operations in MnSCU accounting or in its financial statements.

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, checks, credit cards, or using a financial aid voucher. The college used a cash register to track sales. Bookstore revenues and expenditures recorded on the MnSCU accounting system for fiscal year 1998 totaled $483,600 and $458,393, respectively.

Audit Objectives and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately recorded in the accounting records?

- Did the college design and implement internal controls to provide reasonable assurance that bookstore expenditures were reasonable, properly authorized, and accurately recorded in the accounting records?

- Did the college design and implement internal controls to provide reasonable assurance that bookstore inventories were adequately safeguarded and accurately reported in the accounting records?

To answer these questions, we interviewed college staff to gain a general understanding of the controls over bookstore operations. We also analyzed bookstore revenue and expenditure transactions to determine unusual trends and reviewed source documents to determine proper authorization and accurate recording in MnSCU accounting. Finally, we reviewed the college's process of preparing bookstore financial statements.

Conclusions

Itasca Community College did not design and implement internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately recorded in the accounting records. The college did not design and implement internal controls to provide reasonable assurance that bookstore expenditures were reasonable, properly authorized, and accurately recorded in the accounting records. The college also did not design and implement internal controls to provide reasonable assurance that bookstore inventories were adequately safeguarded or accurately reported in the accounting records. As discussed in Finding 6, the college did not adequately control or monitor bookstore operations. In addition, the college did not accurately record bookstore activities in MnSCU accounting or in the college-prepared financial statements, as explained in Finding 7.

6. The college did not adequately control or monitor bookstore operations.

Itasca Community College assigned most duties relating to bookstore operations to the bookstore manager, which resulted in a lack of segregation of duties. Therefore, the business office could not verify the completeness and accuracy of receipts and disbursements processed and subsequently recorded on the accounting system. In addition, we noted several instances where receipts were not deposited timely.

Although assisted by a student worker, the bookstore manager was responsible for the following duties:

- ringing up sales, voids, and returns,
- closing out the cash register each day,
- reconciling the petty cash and receipts per the register,
- preparing deposit slip and receipts for delivery to the business office,
- recording the bookstore receipts on MnSCU accounting,
- billing, collecting, and posting accounts receivable,
- purchasing and receiving inventory and supplies,
- making payments to vendors, and
- maintaining inventory records and performing physical inventory counts.

Having one individual responsible for the day-to-day activities of the bookstore increases the risk for errors and irregularities. In addition, the lack of an independent review increases the risk that improper transactions could occur and go undetected.

We also noted during the summer months and other periods of slow bookstore activity, receipts were not deposited when they exceeded $250. In addition, the bookstore would receive checks in the mail and remain unopened for a week or more.

Recommendations

- *The college should improve bookstore operations by:*

  - *establishing adequate separation of duties;*
  - *having someone independent of the bookstore operations review the supporting documentation for deposits to determine that all receipts are accounted for;*
  - *conducting surprise periodic physical inventories, and taking annual physical inventories and reconciling to inventory records; and*
  - *processing all bookstore mail-in receipts in the business office.*

- *The college should deposit all bookstore receipts when they accumulate to $250 or more.*

7. The college did not accurately account for bookstore activities in the MnSCU accounting or the college prepared financial statements.

The college incorrectly accounted for several bookstore activities both on MnSCU accounting and in the financial statements prepared by the college.

We noted the following transactions or situations that affected bookstore operations:

- Although only half of the credit card charges related to bookstore sales, the college recorded all $2,200 credit card fees to the bookstore fund in MnSCU accounting and included these charges in the bookstore income statement.

- The college charged $7,176 or approximately one-half of the cost of an ice cream machine to the bookstore fund, even though the college used the machine in its food service operations.

- The college incorrectly used the fiscal year 1996 beginning inventory balance as the beginning inventory balance for the fiscal year 1997 calculation of cost of goods sold. This understated the fiscal year 1997 cost of goods sold by approximately $19,000.

The college did not prepare balance sheets for fiscal year 1997 and 1998. The college cannot effectively evaluate its bookstore operations unless it properly classifies and reports bookstore transactions. Financial activities that are not bookstore activities should not be recorded in bookstore accounts or financial statements.

Recommendation

- *The college should only account for bookstore activities in the MnSCU accounting bookstore fund and in the financial statements for the bookstore.*

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Chapter 7. Student Financial Aid

Chapter Conclusions

Itasca Community College designed and implemented internal controls to provide reasonable assurance that fiscal year 1998 federal and state financial aid disbursements were properly authorized and accurately reported in the accounting records. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, the college did not adequately separate the awarding and disbursing functions for the Federal Family Education Loan Program.

Itasca Community College administered both federal and state student financial aid programs. The college used three computer software programs to package, award, and disburse student financial aid: the accounts receivable module of the Collegiate Information System (CIS), student financial aid system (SAFE), and Loan Management System (LMS) for Perkins Loans.

Federal programs reviewed during the audit period included the following:

- *Federal Pell Grant (CFDA #84.063)* -- The Pell Grant is generally the first source of financial aid assistance to students. Federal funds are available for all eligible students. The maximum Pell Grant was $2,700 for a student in the 1997-98 award year.

- *Federal Family Educational Loan (FFEL), including subsidized and unsubsidized Stafford Loans for students, and Plus Loans for parents (CFDA #84.032*) -- Private lenders provide the loan principal to students for the FFEL Program. The federal government guarantees the loan in case of default or cancellation. For subsidized Stafford loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For unsubsidized Stafford loans, the student pays all interest that accrues on the loan.

- *Federal Supplemental Educational Opportunity Grant (FSEOG) (CFDA #84.007)* -- FSEOG grants are awarded to exceptionally needy undergraduate students. The college determines a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education subsidizes 75 percent of the grants and the college funds the remainder.

- *Federal Work Study (FWS) (CFDA #84.033)* -- Federal Work Study provides part-time employment for students who continue to have financial need after receiving all other available grants. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remainder.

Itasca Community College

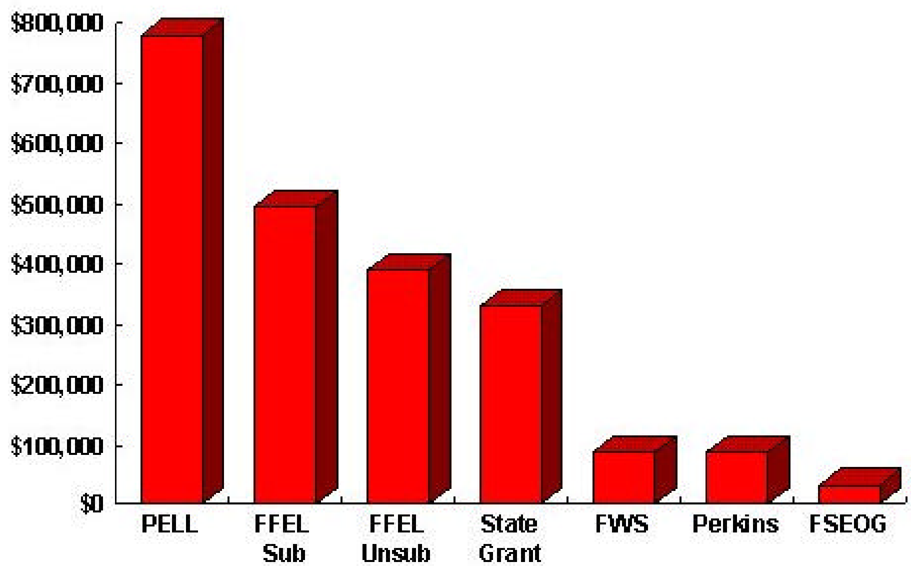
- *Federal Perkins Loan (FPL) (CFDA #84.038)* -- The FPL Program provides new loans to students as MnSCU receives payments on previous Perkins Loans. The MnSCU system office manages the collection, repayment, and waiver process for the college's Perkins Loans.

The state program covered during our audit was:

- Minnesota State Grant (MNSG) -- The Higher Education Services Office (HESO) establishes the eligibility criteria for this program and advances funds to the college. The college determines student eligibility and provides the awards to the students.

Figure 7-1 shows federal and state financial aid expenditures by program for fiscal year 1998.

Figure 7-1
Itasca Community College
Student Financial Aid by Program
Fiscal Year 1998



Source: Auditor prepared based on information provided by Itasca Community College.

Audit Objectives and Methodology

Our review of Itasca Community College's student financial aid programs focused on the following questions:

- Did Itasca Community College design and implement internal controls to provide reasonable assurance that financial aid disbursements were properly authorized for eligible students and accurately reported in the accounting records?

Itasca Community College

- Did Itasca Community College comply with applicable legal requirements over the management of cash and timely and accurate reporting of financial aid activity?

To address these objectives, we gained a general understanding of the control structure related to student financial aid. We evaluated and tested controls over compliance for determining student eligibility, packaging and awarding, and disbursing state and federal financial aid funds. We also tested compliance with cash management and federal reporting requirements.

Conclusions

Itasca Community College designed and implemented internal controls to provide reasonable assurance that fiscal year 1998 federal and state financial aid disbursements were properly authorized for eligible students and accurately reported in the accounting records. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, the college did not adequately separate the awarding and disbursing functions for the Federal Family Education Loan Program, as explained in Finding 8.

8. The college did not adequately separate the awarding and disbursing functions for certain FFEL program loans.

The financial aid staff awarded FFEL program loans and had access to some FFEL disbursement checks. The college received the majority of FFEL program funds by direct electronic funds transfer (EFT). However, the financial aid office received a small percentage of loan funds in the form of paper checks. The financial aid office reviewed the checks, released the students' FFEL awards for disbursement, and delivered the checks to the business office for disbursement to the students. Federal regulation 34 CFR 668.16 (c) requires separation of federal aid awarding from the disbursing or delivery functions. Although the business office subsequently received and disbursed the paper checks, financial aid staff had access to the checks increasing the risk of inappropriate activity.

Recommendation

- *The college should separate the awarding and disbursing functions related to student financial aid and the FFEL program.*

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Status of Prior Audit Issues
As of September 18, 1998

Most Recent Audits

Legislative Audit Report 98-16, issued in March 1998 covered federal financial aid programs administered by the State of Minnesota in fiscal year 1997. We audited the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report included two findings related to the Itasca Community College. The college overpaid a student $500 in Perkins loans and has since resolved this issue. Secondly, the college did not adequately separate duties over college work-study student payroll functions.

Other Audit History

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1997. This report included one finding related to the Itasca Community College. The college resolved this issue.

Legislative Audit Report 96-24, issued in June 1996, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1996. This report did not include any findings related specifically to the Itasca Community College.

State of Minnesota Audit Follow-Up Process The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. 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. The process covers all colleges and universities within the MnSCU system.

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ITASCA
COMMUNITY COLLEGE
Since 1922

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February 12, 1999

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, 1995, through June 30, 1998. Our formal written response to the audit findings is enclosed.

From our Entrance Conference on August 5, 1998 through our Exit Conference on February 9, 1999, 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, CA, Audit Manager; Laura Peterson, CPA, Auditor-in-Charge; Susan Kachelmeyer, CPA, Senior Auditor; and Terry Hanson, Senior Auditor. We were treated with courtesy and respect and appreciate their assistance in resolving many of the audit findings.

We are pleased with the audit process and report. We are also committed to 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,

Joe Sertich Jr.

Dr. Joe Sertich, Ed.D.
President

ITASCA COMMUNITY COLLEGE
Audit Response

February 12, 1999

Finding 1. The college did not maintain sufficient collateral to secure funds in its local bank accounts.

Itasca Community College has completed an assessment of its collateral level with its bank and has acquired adequate coverage to meet statutory provisions. The level of collateral will be monitored on a more regular basis to ensure the level meets the needs of the college's peak periods.

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

Finding 2. The college did not adequately reduce the security and safety risks associated with certain receipts of the college.

Itasca Community College will do an evaluation on the level of risk associated with having college staff transporting receipts. A possibility we will consider is to have the local law authorities escort our staff to the bank when peak collection and financial aid periods occur. As much as possible, the college will have all receipts remitted directly to the business office.

Person Responsible: Bill Maki, Director of Finance and Facilities
Projected Completion Date: March 5, 1999

Finding 3. The college did not adequately monitor user access to the college accounting system.

Itasca Community College will assign an individual to monitor user access to the MNSCU accounting system. The college will take steps to ensure this individual approves all user access to its system.

Person Responsible: Bill Maki, Director of Finance and Facilities
Projected Completion Date: March 5, 1999

Finding 4. The college did not establish an adequate separation of duties over continuing education receipts, computer education center receipts, or administrative adjustments.

Itasca Community College will establish an adequate separation of duties in the continuing education department and at the computer education center. The use of lockboxes and having payments sent directly to the business office will be explored. The college will assign an individual independent of the continuing education department and the computer education center to do reconcile receipts to class rosters.

The college has established an adequate segregation of duties with administrative adjustments by having the Director of Finance and Facilities only review them.

Persons Responsible: Bonnie Henriksen, Director of Continuing Education
Bill Maki, Director of Finance and Facilities
Peg Shroyer, Director of Computer Education Center

Projected Completion Date: March 19, 1999

Finding 5. The college did not deposit computer education receipts timely.

Itasca Community College will deposit computer education receipts on a daily basis to meet Minn. Statue. Section 16A.275.

Persons Responsible: Bill Maki, Director of Finance and Facilities
Peg Shroyer, Director of Computer Education Center

Projected Completion Date: February 17, 1999

Finding 6. The college did not adequately control or monitor bookstore operations.

Itasca Community College will establish an internal control system using business office personnel to minimize risk in the bookstore operations. Surprise inventories and periodic closing of the cash register will be done to improve internal controls. All voids, returns, and purchase orders will be approved by a second person.

Receipts will be mailed directly to the business office to ensure deposits are made within statutory guidelines.

Person Responsible: Bill Maki, Director of Finance and Facilities

Projected Completion Date: March 26, 1999

Finding 7. The college did not accurately account for bookstore activities in the MNSCU accounting or the college prepared financial statements.

Itasca Community College made adjusting entries before FY 1998 was closed to accurately account for activity in the bookstore fund. In the future, the college will only account for activities directly related to the bookstore in the bookstore fund.

Person Responsible: Bill Maki, Director of Finance and Facilities

Projected Completion Date: Completed and ongoing

Finding 8. The college did not adequately separate the awarding and disbursing functions for certain FFEL program loans.

Itasca Community College now has FFEL disbursements sent unopened to the business office.

Person Responsible: Patty Holycross, Director of Financial Aid

Projected Completion Date: Completed and ongoing