



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Fergus Falls Community College
July 1, 1996, through December 31, 1999



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

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

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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Report Summary

Financial Audit

Fergus Falls Community College **July 1, 1996, through December 31, 1999**

Key Audit Conclusions:

Fergus Falls Community College (FFCC) has demonstrated a commitment to sound financial management practices. We concluded the college administered its financial operations in a reasonable and prudent manner. The college operated within available resources and had an effective process to monitor revenue and expenditure budgets.

FFCC's internal controls generally provided reasonable assurance that its financial transactions were authorized and properly recorded on the accounting system. The college complied with finance-related legal provisions in the following areas: student financial aid, payroll, and operating expenditures. However, we did note the following key findings and recommendations that the college needs to resolve.

Key Findings and Recommendations:

- FFCC has not reconciled the cash balance in its bank accounts to amounts recorded in the accounting records since July 1999. Bank reconciliations help ensure accurate accounting and bank records and protect against errors and irregularities going undetected. We recommended that FFCC reconcile its bank accounts to MnSCU accounting in a timely manner. (Finding 1, page 6)
- FFCC did not adequately control non-cash receipt transactions. We cited weak controls over tuition waivers, negative receipt transactions, and voided transactions in the bookstore. The weaknesses could potentially result in unauthorized waivers or misappropriation of assets without detection. We recommended that FFCC have an independent person review these transactions for propriety. (Finding 3, page 8)
- FFCC did not adequately control non-credit tuition receipts, such as continuing education, customized training, and community service programs. These receipts totaled \$75,000 in fiscal year 1999. One individual was responsible for registration and tuition collection for each of the three types of non-credit classes. Inadequate separation of duties increases the chance of errors and irregularities occurring and going undetected. We recommended that FFCC improve controls to provide reasonable assurance that these receipts are adequately safeguarded from loss or theft. (Finding 4, page 9)

Agency Response:

In its written response, the college agreed with the findings and recommendations. It has developed a corrective action plan to address the issues contained in the report.

Fergus Falls Community College

Table of Contents

	Page
Transmittal Letter	1
Chapter 1. Introduction	3
Chapter 2. Financial Management	5
Chapter 3. Tuition Revenue	7
Chapter 4. Payroll	11
Chapter 5. Bookstore	13
Chapter 6. Student Financial Aid	15
Chapter 7. Operating Expenditures	19
Status of Prior Audit Issues	21
Agency Response	23

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Susan Kachelmeyer, CPA,CISA	Auditor
Theresa Hahn	Auditor

Exit Conference

The following staff from Fergus Falls Community College and the MnSCU system office participated in the exit conference held on May 18, 2000

Fergus Falls Community College:

Dr. Ken Peeders	President
Dennis Zilmer	Accounting Officer

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director of Internal Auditing



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Morrie Anderson, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Kenneth Peeders, President
Fergus Falls Community College

We have audited Fergus Falls Community College for the period July 1, 1996, through December 31, 1999, as further explained in Chapter 1. Our audit scope included tuition and fees, payroll and operating expenditures, state grants, and the bookstore. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2000.

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 Fergus Falls 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 for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Fergus Falls Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 8, 2000.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 31, 2000

Report Signed On: June 2, 2000

Fergus Falls Community College

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Fergus Falls Community College

Chapter 1. Introduction

Fergus Falls Community College (FFCC) is part of the Minnesota State Colleges and Universities (MnSCU) system. FFCC is a two-year college. It serves approximately 1,100 students and is accredited by the North Central Association of Colleges and Secondary Schools. Dr. Ken Peeders is the president of the college.

The financial activity for fiscal year 1999 for Fergus Falls Community College is shown in Table 1-1. State appropriations and tuition and fees support the General Fund activity. The Special Revenue Fund includes federal and state student financial aid. The Enterprise Fund includes financial activities from the bookstore, food service, and student housing.

FFCC now manages the student housing located on campus. The student housing consists of the College Manor Apartments and the Williams Hillside Housing. FFCC entered into a lease with the Fergus Falls Housing and Redevelopment Authority (HRA) in September of 1999. The lease calls for FFCC to manage the housing and pay the debt service requirements on the bonds HRA issued to fund the purchase of the buildings. FFCC is allowed to retain any amounts in excess of the debt service requirements.

FFCC is affiliated with the Fergus Area College Foundation, an autonomous, non-profit organization. A private CPA firm audits the foundation. The foundation had total expenditures of approximately \$156,000 for the year ended June 30, 1999. Of this amount, approximately \$116,000 was for grants and scholarships.

Fergus Falls Community College

**Table 1-1
Fiscal Year 1999 Financial Activity**

	General Fund	Special Revenue Fund	Enterprise Fund
Revenue:			
State Appropriation	\$3,975,903	\$ 0	\$ 0
Tuition and Fees	2,391,105	149,823	23,438
Sales & Services	3,997	38,740	99,639
Federal Grants	0	862,202	13,974
State Grants	584,071	0	0
Private Grants	3,385	2,000	0
Other	<u>103,080</u>	<u>18,477</u>	<u>117,668</u>
Total Revenues	<u>\$7,061,541</u>	<u>\$1,071,242</u>	<u>\$254,719</u>
Expenditures:			
Salaries	\$5,212,220	\$78,512	\$68,519
Purchased Services	482,831	54,249	7,193
Supplies	347,009	48,932	6,181
Utilities	155,430	450	0
Contracts/Consultants	71,122	1,245	0
Financial Aid	526,881	811,849	0
Debt Service Interest	104,002	0	0
Capital Expenditures	14,686	0	0
Other	<u>141,546</u>	<u>92,780</u>	<u>59,844</u>
Total Expenditures	<u>\$7,055,727</u>	<u>\$1,088,017</u>	<u>\$145,236</u>
Transfers:			
Transfers In	\$3,430	\$11,336	\$71,949
Transfers Out	<u>\$(26,500)</u>	<u>\$(460)</u>	<u>\$(11,189)</u>
Net Transfers	<u>\$(23,070)</u>	<u>\$10,876</u>	<u>\$60,760</u>
Change in Fund Balance	\$(17,256)	\$(5,899)	\$170,243
Beginning Fund Balance	\$386,486	\$(4,883)	\$515,363
Ending Fund Balance ⁽⁵⁾	<u>\$369,230</u>	<u>\$(10,782)</u>	<u>\$685,606</u>

Note 1: This table is presented on the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from GAAP. MnSCU budgetary accounting includes all receipts and expenditures up to the close of books (mid September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criterion for recognizing expenditures is the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included.

Note 2: Enterprise funds do not include all operating costs such as rent, utilities, or depreciation. Enterprise Fund sales and services are net of cost of goods sold, as follows:

Sales and services – Gross	\$428,946
Cost of Goods Sold	(\$329,307)
Sales and Services – Net	\$99,639

Note 3: Compensated absence liabilities at June 30, 1999, were \$281,346 and \$1,634 for the General Fund and Enterprise Fund respectively. These liabilities represent the amount due college employees for accrued vacation leave, sick leave, and compensatory leave at June 30.

Note 4: The General Fund Ending Fund Balance includes an unrestricted reserve of \$170,000, as calculated by the college. The college is required to maintain a reserve according to board policy. The remaining fund balance was restricted for various commitments, including retiree's health benefits, unemployment compensation, repair and betterments, state grants and other obligations.

Note 5: The beginning and ending negative fund balances in the Special Revenue Fund resulted from the college not drawing all federal work study funds in a timely manner during this time frame. The college deposited the funds after the books were closed.

Source: MnSCU accounting.

Chapter 2. Financial Management

Chapter Conclusions

Fergus Falls Community College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college's internal controls provided reasonable assurance that financial activities were properly recorded on MnSCU accounting and MAPS. However, the college needs to make some improvements to its financial management. We found that the college did not reconcile its bank accounts to MnSCU accounting and did not periodically review information system access reports.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Fergus Falls Community College (FFCC) and all universities and colleges based on an allocation formula. In addition, FFCC, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses 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 expenditures.

Audit Objectives and Methodology

Our review of FFCC's overall financial management focused on the following questions:

- Were the college's financial activities properly recorded on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college operate within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college have 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 gained an understanding of management controls in place over

Fergus Falls Community College

the local bank account and the programs included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if FFCC properly recorded revenue and expenditure transactions in MnSCU accounting.

Conclusion

Generally, FFCC's internal controls provided 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 operated within available financial resources. The college also had an appropriate relationship with its foundation. However, as discussed in Findings 1 through 3, the college needs to make some improvements over financial management.

1. FFCC did not reconcile the cash balance in its bank accounts to amounts recorded on the accounting system.

FFCC has not completed current reconciliations of the cash balance in its local bank accounts to amounts recorded on MnSCU accounting. The college has not been able to reconcile its local bank accounts since it began using the Integrated Student Record System (ISRS) in July 1999.

Reconciliations help to ensure that the accounting records accurately reflect all activity that has taken place, and protect against errors and irregularities going undetected. Without reconciling its local bank accounts in a timely manner, FFCC cannot be assured that all activity in its local bank accounts is accurately recorded in the MnSCU accounting system.

Recommendation

- *FFCC should ensure that reconciliations of local bank accounts to MnSCU accounting are performed in a timely manner.*

2. The college did not review computer system access reports.

FFCC has not reviewed system access reports to ensure that employees have only the clearance required to perform their job duties. FFCC has a process in place whereby supervisors must grant approval for employees to receive system access. However, no one reviewed access reports to ensure that only authorized employees have been granted appropriate system access. For example, during our review, we noted a system office employee with cashiering clearance at FFCC. It is important to review access reports as personnel and job duties change. Without periodically reviewing system access reports, FFCC cannot ensure that only authorized individuals had access to their systems, or that only authorized transactions are processed.

Recommendation

- *FFCC should ensure that supervisors responsible for the various computer system applications periodically review system access reports to ensure that only authorized employees have access and that the access is appropriate.*

Chapter 3. Tuition Revenue

Chapter Conclusions

FFCC's internal controls provided reasonable assurance that tuition revenue was accurately reported in the accounting records and in compliance with legal provisions and management's authorization. The college did not, however, have an adequate separation of duties over non-cash receipt transactions including tuition waivers, voids and negative receipts. It also lacked separation of duties in the non-credit course registration and tuition collection process.

FFCC collected approximately \$2.8 million in tuition and fees during fiscal year 1999. The college uses the MnSCU accounting system for bookkeeping and general ledger capabilities. Prior to July 1999, MnSCU accounting interfaced with the College Information System that maintained registration and accounts receivable information on each student. In July 1999, the college switched to the Student Information System module on MnSCU's Integrated Student Record System to register, bill, and collect tuition for the classes. The Student Information System also interfaces with MnSCU accounting. Resident tuition for the 1999-2000 school year was \$67.60 per semester credit plus miscellaneous fees. The tuition for on-campus, non-resident students was \$135.20 and off-campus \$143.20 per semester credit, plus miscellaneous fees.

The college has a concurrent enrollment program that allows students to take college level classes at their high schools. High school instructors teach the classes. Faculty from the college periodically meets with the instructors to ensure the course meets the requirements for college-level credit. The college sends instructors to the high schools and bills the school district for the tuition and fees. It also has a Post Secondary Enrollment Options Program that allows high school students to enroll in classes at the college in lieu of classes normally taken at their high school. The students receive college credit while fulfilling requirements necessary to graduate from high school. The college bills the Department of Children, Families and Learning for student tuition. Fees for these students are waived, and the college pays for the students' textbooks.

The college also offered customized training, continuing education, and community service programs through the college's Lifelong Learning Center. A separate enrollment registration system, Aceware, was used to bill and collect tuition for the courses offered through the center. The tuition receipts were sent to the business office for entry into the Integrated Student Record System.

Fergus Falls Community College

Audit Objective and Methodology

The primary objective of our audit of tuition and fees was to answer the following question:

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

To meet this objective, we reviewed controls over tuition billing, collection, and deposit. We tested samples of tuition receipts and tuition waivers to determine if the college had accurately recorded the transactions on the MnSCU accounting system.

Conclusion

The college's internal controls generally provided reasonable assurance that tuition revenues were safeguarded, accurately reported in the accounting records, and in compliance with legal provisions and management's authorization. As discussed in Findings 3 and 4, however, we noted some weaknesses in the internal control structure over receipts.

3. FFCC needs to improve controls over non-cash receipt transactions.

FFCC needs to improve controls over non-cash receipt transactions in several areas. First, FFCC did not adequately control tuition waivers. Personnel in the Human Resource Department authorized tuition waivers. A business office clerk who was in charge of collecting tuition receipts was also responsible for recording tuition waivers in the accounting system.

Concentrating these duties with one individual could result in unauthorized waivers being processed and receipts being misappropriated. Tuition and fee waivers can be granted for a variety of reasons, including Post Secondary Enrollment Options Program student fees, Alliss grant recipients' tuition, and employee tuition and fees as provided for in applicable bargaining agreements. Tuition waivers for the six-month period ending December 31, 1999, totaled \$32,000.

The college also did not have procedures to independently review the propriety of negative receipt transactions. Negative receipt transactions provide cashiers with the ability to manipulate the accounting records to agree with the cash deposited. The business office used negative receipt transactions to adjust for nonsufficient funds checks and coding errors. Similarly, the college also did not have any procedures in place to document and review voided transactions in the bookstore. Summaries of daily bookstore sales activity, cash register receipt tapes, and deposits were sent to the business office for verification but no one reviewed the voided transactions for propriety.

All of these transaction types are sensitive because they decrease the amount shown as cash collections for the day. The lack of documentation and independent review of these transactions subjects the receipts to unnecessary risk. Employees could alter the accounting records and misappropriate funds without appropriate oversight of these transactions.

Fergus Falls Community College

Recommendation

- *The college should ensure that there is proper documentation and adequate monitoring of tuition waivers, bookstore voids, and negative receipt transactions.*

4. PRIOR FINDING PARTIALLY RESOLVED: FFCC did not adequately control continuing education tuition receipts.

FFCC did not adequately separate duties related to non-credit tuition receipts, such as continuing education, customized training, and community service programs. The college collected approximately \$75,000 in non-credit tuition during fiscal year 1999. One individual was responsible for registration and tuition collection for each of the three types of non-credit classes. The continuing education office sent the receipts and registrations to the business office. Although the business office reconciled the receipts to the registrations, without an adequate separation of duties an employee could register a student and misappropriate funds without detection.

Recommendation

- *The college needs to improve controls over non-credit course registrations and tuition collections to provide reasonable assurance that receipts are adequately safeguarded from loss or theft.*

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Chapter 4. Payroll

Chapter Conclusions

Fergus Falls Community College's internal controls provided reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. For the payroll transactions tested, the college generally complied with material finance-related legal provisions and applicable bargaining unit agreements.

Payroll represents the largest expenditure for Fergus Falls Community College. The college's payroll expenditures for fiscal year 1999 totaled approximately \$5.4 million. College employees belong to various compensation plans, including the American Federation of State, County and Municipal Employees (AFSCME), the United Technical College Educators (UTCE), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Excluded Administrators Plan, the Commissioner's Plan, and the Minnesota Community College Faculty Association (MCCFA).

Audit Objectives and Methodology

Our review of FFCC's payroll focused on the following questions:

- Did the college design internal controls to provide reasonable assurance that payroll expenditures were properly authorized, and accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and applicable bargaining unit agreements?

To meet these objectives, we interviewed FFCC employees to gain an understanding of the internal control structure and accounting process for payroll and personnel transactions. We also analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusion

Fergus Falls Community College's internal controls provided reasonable assurance that payroll expenditures were properly authorized, and accurately recorded in the accounting records. The college complied with material finance-related legal provisions and applicable bargaining unit agreements for the items tested. We did, however, report to the college two immaterial instances of noncompliance with sick and bereavement leave usage for two faculty members. The college has taken corrective action on those exceptions.

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Chapter 5. Bookstore

Chapter Conclusions

FFCC's internal controls provided reasonable assurance that revenue collections and disbursement transactions were properly recorded in the accounting records. With respect to the items tested, the bookstore operated in compliance with material finance-related legal provisions. However, the college needs to strengthen controls over voided transactions in the bookstore as discussed in Chapter 2, Finding 3.

FFCC's bookstore has one full-time employee, one part-time employee, and up to four student workers. Two clerks from the business office do the bookkeeping for the bookstore. Payroll for the bookstore is charged to bookstore operations. Every two weeks, funds required to cover payroll are transferred from the bookstore checking account.

The college prepared financial statements for the bookstore operation. The bookstore had revenues and expenditures of approximately \$425,000 and \$419,000, respectively, for fiscal year 1999 as recorded in the MnSCU accounting system. The college did not allocate all costs relating to the bookstore, such as rent and indirect costs; those costs, however, are immaterial to the bookstore operations. College personnel indicated that the bookstore profits are used for items such as equipment replacement and budget shortfalls in other areas. During fiscal year 1999, the college used bookstore profits to purchase chairs for the computer lab, science lab, and library.

Audit Objective and Methodology

Our objective for bookstore operations was to answer the following question:

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

To address this objective, we met with bookstore and college staff to gain an understanding of the operations. We reviewed controls over bookstore revenues and expenditures. We also tested samples of transactions to determine if the college had accurately recorded the transactions on the MnSCU accounting system.

Fergus Falls Community College

Conclusion

FFCC's internal controls provided reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions for the items tested.

Chapter 6. Student Financial Aid

Chapter Conclusions

As of December 1999, FFCC's internal controls provided reasonable assurance that it managed its federal student financial aid programs in compliance with applicable laws and regulations. The college also complied with the requirements for federal cash management.

FFCC's internal controls also provided reasonable assurance that the Minnesota State Grant financial aid program was accurately reported in the accounting records. The college also complied with finance-related legal provisions of the program for the items tested.

Audit Scope

FFCC administered both federal and state student financial aid programs. We reviewed programs included in the federal Student Financial Aid Cluster as identified in the *OMB A-133 Compliance Supplement* and the Minnesota State Grant Program. The college disbursed approximately \$841,000 in federal financial aid and \$236,000 in Minnesota State Grants between July 1, 1999, and December 31, 1999.

Following are the student financial aid programs reviewed at FFCC:

- Federal Supplemental Education Opportunity Grants (CFDA #84.007)
- Federal Family Loan Program (CFDA #84.032)
- Federal Work Study (CFDA #84.033)
- Federal Perkins Loan Program (CFDA #84.038)
- Federal Pell Grant (CFDA #84.063)
- Minnesota State Grant Program

Information Systems

The college used three information systems to package, award, disburse, and record student financial aid in fiscal year 2000. FFCC used the stand-alone student financial aid system (PC SAFE) to award and package financial aid, used the MnSCU's Integrated Statewide Records System (ISRS) to disburse aid, and used the MnSCU's centralized Loan Management System (LMS) to administer Perkins Loans. Beginning in fiscal year 2001, FFCC will replace the PC SAFE system with the ISRS financial aid module.

Fergus Falls Community College

A financial aid packaging system is essential to MnSCU institutions. If functioning as designed, it enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the college. PC SAFE interfaced with other modules such as the accounts receivable and student records modules. PC SAFE electronically received and stored financial aid application data. After PC SAFE automatically determined the financial need, it applied awards to students' accounts in the ISRS accounts receivable module.

The PC version of SAFE was a new application for Fergus Falls Community College for fiscal year 2000. The college previously used a mainframe-based version of SAFE. The college had problems with PC SAFE, but developed alternate controls and processes to offset serious problems. One set of problems that FFCC had with processing student financial aid affected the PC SAFE database directly and resulted in lost or corrupted data. Specific data that was lost at FFCC was the award letter history, the award audit trail, and certain demographic details. To offset those problems, the college saved paper copies of audit award letters or reloaded the student information. However, on two occasions, the data corruption was severe enough to necessitate sending the entire Fergus Falls' PC SAFE database to the vendor to be reconstructed.

The other set of problems that FFCC had with its financial aid information systems affected the interface between PC SAFE and ISRS. Specifically, FFCC had problems with the TECH ID--the unique identifier for each student that allowed interfaces with the ISRS modules. This problem occurred for students whose financial aid was pre-packaged using PC SAFE. Loss of the TECH ID prevented PC SAFE from properly interfacing with ISRS. This problem affected approximately 25 percent of FFCC students receiving financial aid. The college manually re-packaged the students' financial aid if necessary. Based on the problems with PC SAFE, we expanded our audit work on financial aid. We did not identify any unresolved issues relating to PC SAFE at FFCC as a result of our expanded tests.

Audit Objectives and Methodology

Our review of Fergus Falls Community College's student financial aid programs for the six-month period ended December 31, 1999, focused on the following questions:

- Did FFCC design internal controls to provide reasonable assurance that it managed its student financial aid programs in compliance with applicable laws and regulations?
- Did FFCC comply with the requirements for federal cash management?
- Did FFCC design internal controls to provide reasonable assurance that it managed the Minnesota State Grant Program in compliance with applicable finance-related legal provisions?

To answer these questions, we interviewed college personnel to gain an understanding of the internal controls in place over federal and state student financial aid. We reviewed federal financial aid authorizations, local bank account records, and financial reports submitted to the U.S. Department of Education. We also reviewed college and MnSCU accounting records. We

Fergus Falls Community College

reviewed certain reporting over the Minnesota State Grant Program. Finally, we performed testing to verify that FFCC had an effective process for packaging, awarding, and disbursing financial aid to eligible students. We expanded our testing because of the problems FFCC and other campuses reported with PC SAFE.

Conclusion

FFCC's internal controls provided reasonable assurance that it managed its federal student financial aid programs in compliance with applicable laws and regulations. The college also complied with the requirements for federal cash management.

FFCC's internal controls also provided reasonable assurance that the Minnesota State Grant financial aid program was accurately reported in the accounting records. For the items tested, the college complied with Minnesota State Grant guidelines.

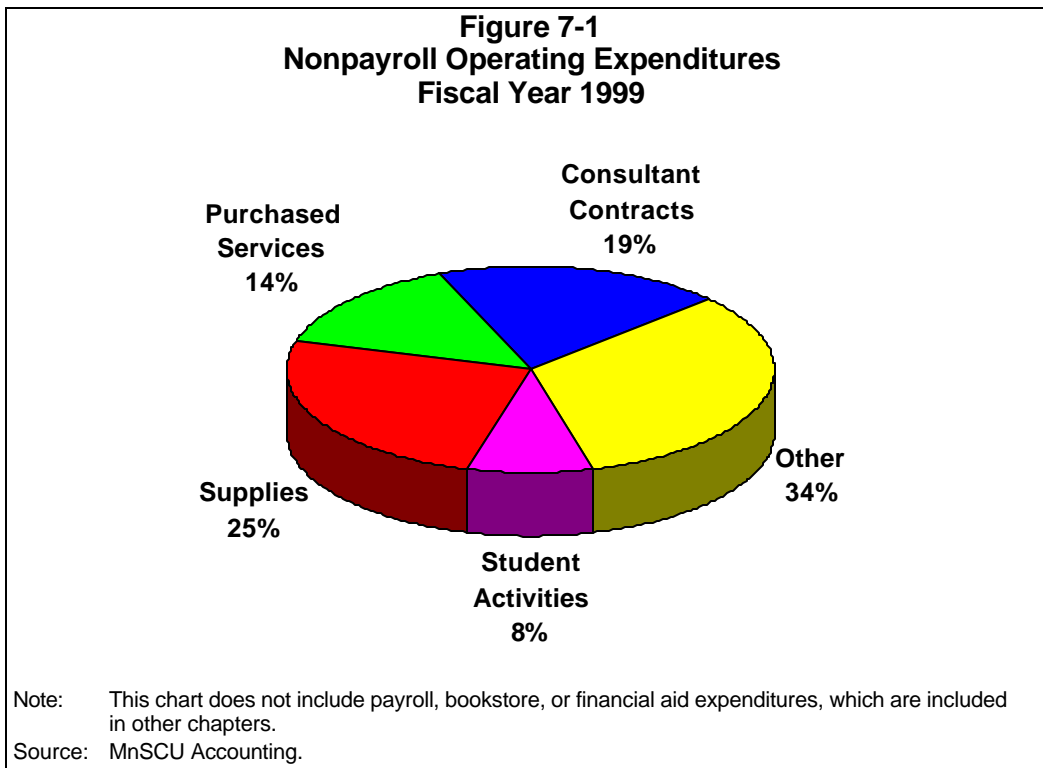
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Chapter 7. Operating Expenditures

Chapter Conclusions

Fergus Falls Community College's internal controls provided reasonable assurance that operating expenditures were properly recorded in MnSCU and MAPS and complied with legal provisions and management's authorization.

We audited the college's supplies, purchased services, and consultant contract expenditures for the period July 1, 1996, through December 31, 1999. FFCC expended approximately \$1 million for these expenditures during fiscal year 1999. Fergus Falls Community College's administrative and academic departments initiated purchase requests that the business office processed. The college used the MnSCU Purchase Control System, which encumbered available funds. The business office was responsible for procuring the goods and services, using MnSCU guidelines to solicit bids and select vendors. After the college received the goods or services, the business office matched the receiving evidence and authorization to the invoice before processing payment. Figure 7-1 shows a breakdown of the college's nonpayroll administrative expenditures in fiscal year 1999.



Fergus Falls Community College

Objective

Our review of FFCC's supplies, purchased services, and consultant contract expenditures focused on the following question:

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

To meet this objective, we interviewed FFCC employees to gain an understanding of the controls over supplies, purchased services, and consultant contract expenditures. We reviewed a sample of expenditure transactions to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if FFCC complied with material finance-related legal provisions.

Conclusion

We concluded that FFCC's internal controls provided reasonable assurance that supplies, purchased services, and consultant contract expenditures were properly recorded in MnSCU and MAPS and complied with legal provisions and management's authorization with respect to the items tested.

**Status of Prior Audit Issues
As of March 31, 2000**

Most Recent Audits

College Audit

Legislative Audit Report 97-35, issued in July 1997, covered material activities of the college for the period July 1, 1995, through December 31, 1996. It included the testing of tuition, payroll and other administrative expenditures, bookstore activities, and student financial aid. The report contained five findings, one of which (Finding 4) is repeated in this report.

Statewide Audits

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements and the Single Audit for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report contained one finding related specifically to Fergus Falls Community College. The finding is repeated in this report as Finding 1.

Legislative Audit Report 99-19, issued in March 1999, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements and the Single Audit for the year ended June 30, 1998. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Fergus Falls 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 aid 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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May 30, 2000

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

Subject: Audit Report Response

Dear Mr. Nobles:

Per your request, the staff of Fergus Falls Community College has reviewed your audit report of this college for the period of July 1, 1996 through December 31, 1999. The following items respond to the audit finding and recommendations in the same order in which they are listed in your report. Please contact me if further clarification is necessary.

Response to Audit Recommendations

1. FFCC did not reconcile the cash balance in its bank accounts to amounts recorded on the accounting system.

Recommendation

- *FFCC should ensure that reconciliations of local bank accounts to MnSCU accounting are performed in a timely manner.*

Response: We concur with this finding. The Business Officer will insure that the reconciliations to the local bank accounts with MnSCU accounting are performed in a timely manner. This will be accomplished by June 30, 2000.

2. The college did not review computer system access reports.

Recommendation

- *FFCC should ensure that supervisors responsible for the various computer system applications periodically review system access reports to ensure that only authorized employees have access and that the access is appropriate.*

Response: We concur with this finding. The Director of Computer Services has established a periodic review of system access reports to ensure that only authorized employees have access and that the access is appropriate.

3. FFCC needs to improve controls over receipt collections .

Recommendation

- *The college should ensure that there is proper documentation and adequate monitoring of tuition waivers, bookstore voids, and negative receipt transactions.*

Response: We concur with this finding. The college will ensure that there is proper documentation and adequate monitoring of tuition waivers, bookstore voids, and negative receipt transactions. The Business Officer has transferred the responsibilities for tuition waivers and negative receipts from the cashier to another individual in the business office. Regarding the bookstore voids, the Business Officer has established a form and procedure for review of and approval of bookstore voids.

4. Prior Finding Not Resolved: FFCC did not adequately control continuing education tuition receipts.

Recommendation

- *The college should ensure that an adequate separation of duties exists for continuing education receipts. It should consider collecting continuing education receipts in the business office or having the registrar involved in the registration process.*

Response: We concur with this finding. The college will be using the ISRS Non credit/customized training module for continuing education registration beginning the 2000-2001 academic year. By utilizing this model the Business Office will be collecting these receipts thereby eliminating this problem.

Sincerely,

/s/ Ken Peeders

Ken Peeders
President
Fergus Falls Community College

KPP:ct