OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Hibbing Community College

Three Fiscal Years Ended June 30, 2000

MAY 24, 2001 **01-28**

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.

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

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Dr. Anthony Kuznik, President
Hibbing Community College

We have audited Hibbing Community College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll and other administrative expenses, state grants, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

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 Hibbing 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.

We prepared this report for the information of the Legislative Audit Commission and the management of Hibbing Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 24, 2001.

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

End of Fieldwork: March 30, 2001

Report Signed On: May 21, 2001

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Tony Toscano	Audit Director
Carl Otto, CPA	Auditor
Theresa Hahn	Auditor
Dave Massaglia	Auditor

Exit Conference

The following staff from Hibbing Community College and the MnSCU system office participated in the exit conference held on May 9, 2001:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director, Financial Reporting
Deb Winter	Director, Campus Assistance
John Asmussen	Executive Director, Internal Auditing
Kim McLaughlin	Regional Audit Coordinator
Hibbing Community College:	
Anthony Kuznik	President
Ron Blakesley	Vice President of Administrative Services

Report Summary

Hibbing Community College operated within available financial resources. Except as noted below, the college operated in compliance with applicable legal provisions and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded.

Key Findings:

- The college did not adequately restrict computer access over cashiering. Two employees had cashiering clearances that did not need such access. We recommended that employees only have the access necessary to carry out their job responsibilities. (Finding 1, page 9)

- The college did not promptly request federal reimbursement of financial aid disbursements. By not requesting federal funds in a timely manner, the college used state funds to cover financial aid payments. We recommended that the college design and implement a policy to determine the timing of drawdowns of federal funds and minimize the impact on state cash resources. (Finding 4, page 20)

Agency Background:

Hibbing Community College, a technical and community college, is part of the Minnesota State Colleges and Universities (MnSCU) system. The college provides approximately 1300 full-time students with two-year degree and certificate programs in areas as diverse as law enforcement and culinary arts, along with transfer concentrations that students can take with them to four-year institutions. Dr. Anthony Kuznik is the president of the college.

Agency Response:

Financial Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our audit work at Hibbing Community College included financial management tuition, payroll, operating expenditures, bookstore operations, and student financial aid from July 1, 1997, through June 30, 2000. The college's response to our recommendations is included in this report.

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Chapter 1. Introduction

Hibbing Community College, a technical and community college, is part of the Minnesota State Colleges and Universities (MnSCU) system. The college provides approximately 1300 full-time students with two-year degree and certificate programs in areas as diverse as law enforcement and culinary arts, along with transfer concentrations that students can take with them to four-year institutions. Dr. Anthony Kuznik is the president of the college.

Table 1-1 provides a summary of the college's revenues, expenditures/expenses, and changes in fund balance for the General Fund, Special Revenue Fund, and Enterprise Fund for the fiscal year ended June 30, 2000. State appropriations, tuition, and fees support the General Fund activity. The Special Revenue Fund includes federal and state student financial aid transactions. The Enterprise Fund includes financial activities from the bookstore.

Table 1-1
Hibbing Community College
Revenues, Expenditures/Expenses, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2000 (1)

	General Fund	Special Revenue Fund	Enterprise Funds	
Revenues:				
State Appropriation	$ 8,253,882	$ 0	$ 0	
Tuition and Fees	3,870,945	3,604	64,719	
Federal Grants	0	2,308,143	0	
Sales and Services, Net	111,921	0	149,836	(2)
Room and Board	7,668	0	0	
State Grants	37,267	673,934	0	
Private Grants	3,287	0	3,000	
Other Income	116,100	0	13,853	
Total Sources	$12,401,070	$2,985,681	$231,408	
Expenses/Expenditures:				
Payroll	$ 8,756,790	$ 895,844	$ 42,022	
Purchased Services	1,079,840	24,130	17,909	
Utilities	446,535	0	0	
Contract/Consultants	238,262	37,827	0	
Supplies	1,049,102	159,349	175	
Financial Aid	0	1,834,417	89,620	
Capital Expenditures	166,906	58,609	0	
Debt Service-Interest	272,645	0	0	
Other	236,375	14,382	3,324	
Total Expenses/Expenditures	$12,246,455	$3,024,558	$ 153,050	(3)
Transfers:				
Transfers-In	$ 40,156	$ 0	$ 0	
Transfers-Out	0	(1,423)	39,997	
Total Transfers	$ 40,156	$ (1,423)	$ 39,997	
Change in Fund Balance	194,771	(37,454)	38,361	
Beginning Fund Balance	1,653,859	40,084	1,038,447	(5)
Ending Fund Balance	$ 1,848,630 (4)	$ 2,630	$ 1,076,808	(5)

Note 1: Table 1-1 uses MnSCU's budgetary basis of accounting, which differs from generally accepted accounting principles. We have included this statement in our report for informational purposes only. MnSCU uses the budgetary basis of accounting to prepare annual budgets and to allocate state appropriations. The budgetary basis of accounting includes all receipt and expenditure transactions up to the close of the books (in early September) for the budget fiscal year. MnSCU's budgetary basis of accounting does not accrue revenues received after the close of the books and recognizes expenditures when the college records the disbursement, not when it receives the goods or services. Table 1-1 does not include capital project revenues and expenditures. Also, the table does not include long-term liabilities for the General or Special Revenue Funds. Beginning and ending fund balances do not reflect assets such as accounts receivable and prepaid assets, or long-term liabilities, such as debt and compensated absences. MnSCU estimated that compensated absences as of June 30, 2000, totaled $885,518 for the General Fund.

Note 2: Enterprise Fund:

Sales and Services - Gross	$598,706
Cost of Goods Sold	448,870
Sales and Services - Net	$149,836

Note 3: Although the college allocated indirect costs to the bookstore, which is a major part of the Enterprise Fund, the college did not allocate indirect costs to all Enterprise Fund activities.

Note 4: The Board Designated General Fund Reserve at June 30, 2000, was $853,677. Also, the college reserved $21,492 of the ending fund balance for future obligations, such as special dedicated appropriations, outstanding encumbrances, and faculty contractual commitments, such as debt and compensated absences.

Note 5: The Enterprise Fund's beginning fund balance and ending fund balance included outstanding Federal Perkins loans to students.

Source: MnSCU accounting records.

Hibbing Community College is affiliated with the Hibbing Community College Foundation, an autonomous, non-profit organization. The foundation offers scholarships and funds other activities that benefit the public educational mission of the college.

Chapter 2. Financial Management

Chapter Conclusions

Hibbing 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 the state's accounting system.

MnSCU receives appropriations from the state's General Fund for the majority of its operational funding. The MnSCU system office allocates appropriated funds to Hibbing Community College and the other universities and colleges based on an allocation formula. In addition to the state appropriations, Hibbing Community College, like other colleges, retains tuition and other receipts to arrive at its total authorized spending level.

MnSCU colleges use the MnSCU accounting system to initiate transactions. MnSCU accounting transactions update the state's primary accounting system (the Minnesota Accounting and Procurement System) through an automated interface. The state's accounting system generates state treasury warrants for state appropriated expenditures. Hibbing Community College also maintains a local bank account outside of the state treasury for funds controlled at the college level. The college has the responsibility to ensure that the local bank adequately secures funds held in the college's account against loss. Minnesota Statutes require that bank balances not exceed 90 percent of the market value of the bank's pledged collateral. At times, since September 1999, the college's deposits exceeded 90 percent of the account's collateralized amount during the peak tuition collection periods in September and January. Through January 2001, the college's local bank account balance exceeded required collateral amounts by as much as $1.5 million. In January 2001 the college corrected this deficiency by requesting that the bank increase the amount of collateral pledged from $1 million to $3 million to adequately secure Hibbing Community College's account.

Audit Objectives and Methodology

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

- Did the college operate within its available resources?

- Did the college design and implement controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and the state's accounting systems?

Hibbing Community College

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 MnSCU transactions posted to the accounting records to determine if Hibbing Community College properly recorded revenue and expenditure transactions to MnSCU accounting for both state treasury activities and its local activities.

Conclusions

Hibbing Community College operated within its available resources. Hibbing Community 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 accounting system in a timely manner.

Chapter 3. Tuition Revenue

Chapter Conclusions

Hibbing Community College's internal controls generally provided reasonable assurance that it adequately safeguarded and accurately reported tuition, fee, and customized training revenue in the accounting records in compliance with legal provisions and management's authorization. The college, however, had several employees with incompatible user profiles for the accounting system.

In early fiscal year 2000, Hibbing Community College implemented the Integrated Student Record System, one of the MnSCU's new business system modules. The college used the Integrated Student Record System to register students, assess charges, and maintain the college's accounts receivable. This module automatically:

- charged tuition as a result of registration activity;
- adjusted tuition charges when courses were added or dropped;
- charged standard fees and any special fees;
- posted collections against student tuition and fee charges;
- interfaced with the financial aid module to credit financial aid funds to the student's account; and
- posted the related accounting transactions to the college's cost centers and general ledger.

In fiscal year 2000, approximately $3,450,000, or 84 percent, of the college's tuition and fee receipts came from credit-based courses. Board authorized tuition rates for academic year 2000 were $67.55 per credit for residents of Minnesota and reciprocity states and $135.10 per credit for residents of other states.

In addition to credit based tuition revenue, the college collected revenue from customized training, which includes continuing education courses and contract training courses. The college offered continuing education to the public and developed contract courses tailored to the needs of a specific business or industry. The customized training course fees varied based on the cost of delivery. Customized training tuition and fees accounted for approximately $638,000, or 16 percent of the college's tuition and fee revenue in fiscal year 2000. During the prior audit and through January 2000, the college did not deposit customized training receipts on a timely basis. Although business office staff received the receipts directly, they could not deposit the receipts until they received the deposit coding information from the customized training department. The business office held the checks until the customized training department informed them of the proper codes. In January 2000, due to the implementation of the Integrated Student Record System, the college changed its customized training receipt procedures. When the customized training staff bills their customers, they now enter accounts receivable information into the Integrated Student Record System. In addition, the customized training staff sends a copy of the invoice to the business office detailing the coding information. This has improved receipt processing for customized training receipts.

The business office collects all credit-based and customized training receipts. For credit based tuition and fee receipts, as well as some customized training and continuing education receipts, students pay at the cashier window in the business office. The business office may also receive checks through the mail, usually for customized training contract courses. At the end of the day, as part of the daily closeout process, the accounting system prints a report summarizing the day's collections and postings. The staff uses this report to balance the cash register, prepare the deposit, and post transactions to MnSCU accounting and the state's accounting system. College staff then take the deposits to the bank. The State Treasurer sweeps funds out of the local bank accounts and into the state treasury based on the accounting entries posted in the state's accounting system.

Audit Objectives and Methodology

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

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

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

To address these objectives, we interviewed college employees to gain an understanding of the internal control over the assessing, collecting, depositing, and recording of tuition, fee, and customized training revenue. We reviewed tuition and fee rates, student registrations, billings, and accounts receivable records and MnSCU accounting records to determine if the college assessed appropriate rates and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed bank deposit documentation to determine whether the college properly safeguarded and deposited all collected tuition, fee, and customized training revenue in compliance with applicable legal provisions.

Conclusions

Hibbing Community College's internal controls generally provided reasonable assurance that it adequately safeguarded and accurately recorded tuition, fees, and customized training revenue in the accounting records in compliance with applicable legal provisions and management's authorization. However, as noted in Finding 1, we determined that certain employees had computer access they did not need to perform their authorized duties. For the items tested, the college complied with applicable finance-related legal provisions.

Hibbing Community College

1. Hibbing Community College did not adequately restrict computer access over cashiering.

Hibbing Community College did not ensure that employee computer system profiles included only those clearances necessary for the employees to perform their jobs. The college has the primary responsibility to ensure that employee access is necessary based upon job responsibilities. Two employees had unneeded access to certain cashiering functions. These employees had clearance to handle such functions as cashiering, tuition waivers, collections, accounts receivable adjustments, and tuition deferment transactions. In order to maintain effective accounting controls, the college should periodically monitor computer security clearances to ensure that users only have the access necessary to perform their job duties.

Recommendation

- *Hibbing Community should ensure that employees only have the access necessary to carry out their job responsibilities.*

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Chapter 4. Payroll

Chapter Conclusions

Hibbing Community College's internal controls generally provided reasonable assurance that it properly authorized, processed, and accurately recorded payroll expenditures in the accounting records. However, a contractor's employees had excessive ability to update the college's personnel data. For the payroll transactions tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Payroll was Hibbing Community College's largest expenditure. The college's payroll expenditures for fiscal year 2000 totaled approximately $9.7 million. College employees belonged to various compensation plans:

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

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

The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions, including Hibbing Community College. To perform its contractual duties, the contractor needed access to certain retirement data on the MnSCU State Colleges and Universities Personnel and Payroll System. The security clearance granted by the MnSCU system office provided broader access than needed, including the ability to create an employee, modify personnel data, and update faculty assignments and salaries. As a result, the college is vulnerable to unauthorized transactions and disclosure of confidential data.

Ideally, the MnSCU system office should design a unique security group to restrict the contractor's access to the minimum level necessary to fulfill its contractual duties. MnSCU system office believes that an indemnity clause in the agreement with the contractor protects MnSCU against any loss that it may sustain due to the inappropriate access. Additionally, the system office and the colleges could institute controls to detect unauthorized transactions performed by the contractor's staff. Ultimately, the system office, rather than any individual college, needs to resolve this weakness to protect the colleges' data and ensure that unauthorized transactions do not occur.

Audit Objectives and Methodology

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

- Did the college design internal controls to provide reasonable assurance that it properly authorized, processed, and accurately recorded payroll expenditures 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 Hibbing Community College 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.

Conclusions

Hibbing Community College designed and implemented controls to provide reasonable assurance that it properly authorized, processed, and accurately recorded payroll expenditures in the accounting records. However, as discussed earlier in this chapter, a contractor's employees had excessive ability to update the college's personnel data. For the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Chapter 5. Operating Expenditures

Chapter Conclusions

Hibbing Community College's internal controls provided reasonable assurance that it properly recorded operating expenditures in MnSCU's and the state's accounting systems in compliance with legal provisions and management's authorizations. However, the college needs to use proper occurrence dates when it makes vendor payments.

Hibbing Community College expended approximately $3.8 million during fiscal year 2000 for operating expenditures, including rent, utilities, purchased services, supplies, and travel. Hibbing Community College's administration and academic departments initiated purchase requests that the business office processed. The college used the MnSCU Purchase Control System to encumber 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.

Audit Objectives and Methodology

Our review of operating expenditures focused on the following questions:

- Did the college design internal controls to provide reasonable assurance that it accurately recorded operating expenditures in the accounting records in compliance with legal provisions and management's authorizations?

- Did the college comply with material finance-related legal provisions?

To meet these objectives, we interviewed Hibbing Community College employees to gain an understanding of the controls over operating expenditures. We tested a sample of disbursement transactions to determine whether the college properly authorized, processed, and recorded expenditure transactions. We also reviewed expenditures to determine if Hibbing Community College complied with material finance-related legal provisions. Finally, we reviewed the college's process to record and review fixed assets.

Conclusions

We concluded that Hibbing Community College's internal controls provided reasonable assurance that supplies, purchased services, and consultant contract and utility expenditures were properly recorded in MnSCU's and the state's accounting system and complied with legal provisions and management's authorization with respect to the items tested. As discussed in Finding 2, we noted that the college did not accurately record occurrence dates in the MnSCU accounting system.

2. Hibbing Community College did not always use proper occurrence dates when recording expenditures in the MnSCU accounting system.

Hibbing Community College did not consistently record the proper date as the occurrence date in the MnSCU accounting system. The occurrence date should be the date that the college received the goods or services. Although the college sometimes used the proper date, it also used a variety of other dates when recording the occurrence date, such as the date of the invoice, the date the college received the invoice, or the date the college made the payment. Proper use of the occurrence date field establishes the date when the college had a financial liability according to accounting principles.

Recommendation

- *Hibbing Community College should use the occurrence date to record the date the college received the goods or services.*

Chapter 6. Bookstore

Chapter Conclusions

> ***Hibbing Community College's internal controls provided reasonable assurance that it properly recorded revenue collections and disbursement transactions in the accounting records in compliance with applicable legal provisions and management's authorization. With respect to the items tested, the bookstore operated in compliance with material finance-related legal provisions. However, the college needs to monitor bookstore purchases.***

Hibbing Community College operated with a manager and two part-time student workers. For fiscal year 2000, the bookstore had revenue of nearly $599,000 and expenses, including cost of goods sold and payroll, of approximately $500,000. The college also allocated indirect costs to the bookstore based on the bookstore's square footage. The bookstore did not maintain a perpetual inventory system, but did complete an inventory count at the end of each fiscal year and made adjustments to the accounting records.

Audit Objective and Methodology

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

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

To meet this objective, we met with bookstore and college staff to gain an understanding of the bookstore's operations. We reviewed controls over bookstore revenues and expenses. We also performed an analytical review of financial activities and tested samples of transactions to determine if the college had accurately recorded the transactions on MnSCU's accounting system.

Conclusion

Hibbing Community College's internal controls provided reasonable assurance that it accurately recorded bookstore revenue and disbursement transactions in the accounting records, in compliance with applicable legal provisions and management's authorizations. However, as discussed in Finding 3, the college needs to more effectively monitor bookstore purchases.

3. Hibbing Community College needs to more effectively monitor bookstore purchases.

Hibbing Community College did not have a system in place to identify the bookstore's available financial resources. Since bookstore staff did not encumber funds when placing orders, only they knew the amount of outstanding obligations for book orders. Bookstore staff could use the MnSCU accounting system to encumber funds as they place orders, but should, at a minimum, have a record or log of unfilled orders. Without a system to monitor the bookstore's purchase orders, there is no assurance that the bookstore has funds sufficient to pay for its outstanding purchases.

Recommendation

- *The college should develop a system to monitor outstanding purchase orders.*

Chapter 7. Student Financial Aid

Chapter Conclusions

Hibbing Community College's internal controls provided reasonable assurance that it properly recorded student financial aid transactions in the accounting system and administered student financial aid transactions in accordance with applicable federal regulations. The college's internal controls provided reasonable assurance that only eligible students received aid in the appropriate amounts. In addition, for the items tested, the college complied with applicable federal requirements over receiving federal funds. However, the college did not promptly request federal reimbursement of financial aid disbursements.

Hibbing Community College began using the financial aid module within MnSCU's Integrated Student Record System to package and award financial aid in fiscal year 2000. (Prior to fiscal year 2000, the college used the SAFE software package to calculate financial aid.) The financial aid module interfaces with other modules within the Integrated Student Record System, such as the accounts receivable and student record modules. It electronically receives and stores the Student Aid Report from the federal processor and also accepts and stores the institutional financial aid application and tax data from the student. A comparison of the student's application and tax data to the Student Aid Report identifies any discrepancies, beyond accepted tolerances, in a process called, "verification."

The financial aid module determines the amount of aid in compliance with federal and state financial aid program requirements through a series of computerized edits. The college has the discretion to activate or deactivate these edits. The financial aid module interfaces with the accounts receivable module to verify students' enrollment status and credit students' accounts for the financial aid awarded. If the financial aid award changes, due to changes in the student's financial position or enrollment status, the financial aid module adjusts the student's account on the accounts receivable module.

Hibbing Community College participates in a variety of federal financial aid programs. Table 7-1 summarizes program expenditures for fiscal year 2001 as of February 8, 2001:

Table 7-1
Hibbing Community College
Federal Financial Aid Expenditures
Fiscal Year 2001 as of February 8, 2001

CFDA Number	Program	Total Expenditures
84.268	Federal Family Education Loan	$1,461,423
84.063	Federal Pell Grant	$1,272,940
84.007	Federal Supplemental Education Opportunity Grant	$22,200
84.038	Federal Perkins Loan	$74,050
84.033	Federal Work-Study	$72,766

Source: Integrated Student Record System as of February 8, 2001.

The Federal Pell Grant is usually the first source of assistance to eligible students. The grant establishes eligibility based on the cost of education, the family's ability to pay, and the student's enrollment status. The maximum Pell Grant for the 2000-2001 award year was $3,300 per student.

The Federal Family Education Loan program includes subsidized and unsubsidized loans available from local banks through a guarantee agent, either the Education Assistance Corporation or Great Lakes Higher Education Corporation. Students may receive both subsidized and unsubsidized loans for the same enrollment period. Students receive a subsidized loan based on financial need. The student is not charged interest before they begin repayment or during authorized deferment periods. The federal government "subsidizes" the interest during these periods. Any student can receive an unsubsidized loan. The lender, usually a local bank, charges interest from the time it disburses the loan until the student repays it. The lender determines the maximum award amount based on the number of credits the student has already earned and the amount previously borrowed.

The Federal Perkins Loan Program uses both federal and state funds to provide low-interest loans to needy students. The college acts as the lender. MnSCU's Student Loan Service Center corresponds with students entering repayment status, processes loan repayments, and collects on delinquent loans.

The Federal Work-Study and Federal Supplemental Educational Opportunity Grant programs are additional sources of federal financial aid for some students. The federal government share must not exceed 75 percent of the total expenditures in these programs. The state contributes the remaining 25 percent of the program funding. Although there is no annual maximum for the Federal Work-Study Program, Hibbing Community College's policy typically limits a full-time student to a maximum of $2,600. A student's Federal Supplemental Educational Opportunity Grant may not exceed $4,000 for each academic year.

Hibbing Community College

Hibbing Community College also participates in the Minnesota State Grant Program funded by the Minnesota Higher Education Services Office. The college packages Minnesota State Grants along with federal financial aid. The Minnesota Higher Education Services Office determines eligibility for the state grant program and reimburses the college for eligible grant disbursements.

The college also participates in the Minnesota Student Educational Loan Fund and the State Work-Study programs. A Minnesota Student Educational Loan is available to students regardless of financial need. The number of credits earned by the student determines the maximum amount of the loan. The State Work-Study Program provides jobs for students with financial need. The college's financial aid office determines eligibility annually. Award maximums are the same as those for federal work-study.

Audit Objectives and Methodology

Our review of the college's federal financial aid shown in Table 7-1 for the period July 1, 2000, through February 8, 2001 focused on the following questions:

- Did the college's internal controls provide reasonable assurance that it properly recorded student financial aid transactions in the accounting system and administered student financial aid transactions in accordance with applicable federal regulations?

- Did the college's internal controls over packaging and awarding federal financial aid provide reasonable assurance that only eligible students received aid in the appropriate amount?

- For the items tested, did the college comply with applicable federal cash management requirements?

To answer these questions, we interviewed employees from the college financial aid and business offices and tested controls over compliance for key finance-related legal requirements. In addition, we reviewed college records and tested controls to ensure compliance with regulations governing federal cash management.

Conclusions

Hibbing Community College's internal controls provided reasonable assurance that it properly recorded student financial aid transactions in the accounting system and administered student financial aid transactions in accordance with applicable federal regulations. The college's internal controls over packaging and awarding federal financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts. In addition, for the items tested, the college complied with applicable federal requirements over receiving federal funds. However, as explained in Finding 4, the college did not promptly request federal reimbursement of financial aid disbursements.

Hibbing Community College

4. PRIOR FINDING PARTIALLY RESOLVED: Hibbing Community College did not promptly request federal reimbursement of financial aid disbursements.

The college did not request federal financial aid funds as soon as allowed. Federal regulations allowed the college to draw federal funds up to three days before the college made disbursements to students. (The college disbursed funds to students at the time that the financial aid module interfaced with the accounts receivable module to credit students' accounts for the financial aid awarded.) Although the college promptly requested and received the large initial draw at the start of each semester, subsequent draws were more infrequent. The college generally waited two to three days after it had credited student accounts before requesting the funds. In one case, six weeks after the previous federal draw, the college requested a reimbursement for federal student financial aid disbursements totaling nearly $60,000.

The college needs to develop a process to identify when it should make federal draws. The college needs to establish a reasonable time frame for the federal draws based on the amount of the draw. By not requesting federal funds in a timelier manner, the college used state funds to cover financial aid payments.

Recommendation

- *Hibbing Community College should design and implement a process to determine the timing of drawdowns of federal funds and minimize the impact on state cash resources.*

Status of Prior Audit Issues
As of March 30, 2000

Most Recent Audits

College Audit

Legislative Audit Report 98-40, issued in July 1998, covered tuition, payroll, financial aid, bookstore activity, and operating expenditures. The report contained 11 findings related specifically to Hibbing Community College. The college implemented 10 of these findings. The remaining issue relates to the college's untimely requests for financial aid reimbursements from the federal government.

Statewide Audits

Legislative Audit Report 01-15, issued in March 2001, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements, or the Single Audit, for the year ended June 30, 2000. This report did not include any findings specifically related to Hibbing Community College.

Legislative Audit Report 00-11, issued in March 2000, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements, or the Single Audit, for the year ended June 30, 1999. This report did not include any findings specifically related to Hibbing 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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Hibbing Community College
A TECHNICAL AND COMMUNITY COLLEGE

May 16, 2001

Mr. James R. Nobles
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55l55

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Hibbing Community College audit report for the period July 1, 1997 through June 30, 2000. We have reviewed the findings and recommendations contained in the report and agree with the findings. The following is Hibbing Community College's response to each finding.

Finding #1

Hibbing Community College did not adequately restrict computer access over cashiering.

College response

Two employees who did not need access to cashiering functions have been deleted from cashiering functions. The college will periodically monitor computer security clearances.

Completion Date: Completed

Responsible Person: Ronald Blakesley, Vice President, Administrative Services

Finding #2

Hibbing Community College did not always use proper occurrence dates when recording expenditures in the MnSCU accounting system.

College response

Staff have been retrained on the use and importance of occurrence dates to the accounting system. College payment documents are being reviewed to assure correct dates are being used.

Completion Date: Completed May 2001

Responsible Person: Ronald Blakesley, Vice President, Administrative Services

Finding #3

Hibbing Community College needs to more effectively monitor bookstore purchases.

College response

Hibbing Community College will begin to use MnSCU (PCS) Purchasing Control System to encumber funds for each purchase and to pay its bookstore invoices. This will assure the college that there are sufficient funds available to pay its outstanding purchases.

Completion Date: June 30, 2001

Responsible Person Ronald Blakesley, Vice President, Administrative Services

Finding #4

Prior funding partially resolved: Hibbing Community College did not promptly request federal reimbursement of financial aid disbursements.

College Response

Hibbing Community College shall develop a process to ensure that Federal Financial Aid funds are drawn down on a timely basis.

Completion Date: August 26, 2001 (prior to beginning of fall semester)

Responsible Person: Ron Blakesley, Vice President, Administrative Services

Please accept my thanks for the professionalism of your staff during the course of the audit. Their recommendations will be invaluable to us in our efforts to improve the financial management of Hibbing Community College.

Sincerely,

/s/ Anthony E. Kuznik

Anthony E. Kuznik
President

Cc: Laura King, MnSCU Vice Chancellor of Finance
John Asmussen, MnSCU Executive Director of Internal Auditing