

Financial-Related Audit

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**Inver Hills Community College**  
**July 1, 1997, through June 30, 2000**



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## 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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**OFFICE OF THE LEGISLATIVE AUDITOR**  
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Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Cheryl Frank, President  
Inver Hills Community College

We have audited selected areas of Inver Hills Community College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included financial management, tuition, fees and other revenue, employee payroll, administrative expenditures, and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The audit objectives and conclusions are highlighted 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 require that we design the audit to provide reasonable assurance that Inver Hills Community College complied with 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, the management of Inver Hills Community College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 4, 2001.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 15, 2001

Report Signed On: September 28, 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
Tom Donahue, CPA	Audit Manager
Pat Ryan	Auditor-in-Charge
Charlie Gill	Auditor
Allan Sasse	Auditor
Teresa Anderson	Intern

### **Exit Conference**

We discussed the findings and recommendations with the following representatives of the MnSCU system office and Inver Hills Community College at the exit conference held on September 17, 2001:

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
Paul Portz	MnSCU Audit Coordinator

Inver Hills Community College:

Cheryl Frank	President
Larry Margolis	Director of Administrative Services
Rose Davis	Business Manager

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## Report Summary

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Since our last audit, Inver Hills Community College has made significant improvements to its financial operations. In addition to implementing all prior audit recommendations, we noted that the college complied with applicable legal provisions, and its internal controls provided reasonable assurance that assets were safeguarded and financial activities were properly recorded. Inver Hills Community College's budgetary controls provided reasonable assurance that it operated within available resources. However, we noted the following internal control weaknesses.

### Key Findings:

- Inver Hills Community College did not adequately restrict certain computer security clearances. The college should limit access to ensure an adequate separation of duties and prevent unauthorized access to data. (Finding 1, page 6)
- Inver Hills Community College did not have adequate controls over the processing of daycare receipts. (Finding 2, page 11)

<p>Inver Hills Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, employee payroll, administrative expenditures, bookstore operations, and daycare center revenue for the period July 1, 1997, through June 30, 2000. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. The college's response is included in the report.</p>
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## Chapter 1. Introduction

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Inver Hills Community College, located in Inver Grove Heights, is part of the Minnesota State Colleges and Universities (MnSCU) system. The two-year community college is accredited by the North Central Association of Colleges and Schools. The college had an enrollment of 2,445 full-year equivalent students during the 2000 academic year. The MnSCU Board of Trustees appointed Dr. Cheryl Frank as president of Inver Hills Community College effective July 1, 1998. She had served as interim president since July 1997.

The college is affiliated with the Inver Hills Community College Foundation. The foundation's primary function is to provide student scholarships.

Inver Hills Community College finances its operations primarily from state appropriations and student tuition and fees. Table 1-1 provides a summary of the college's revenues, expenditures/expenses, and changes in fund balance for the General Fund, Special Revenue Funds, Enterprise Funds, and Trust Funds for the fiscal year ended June 30, 2000.

# Inver Hills Community College

**Table 1-1**  
**Revenues, Expenditures/Expenses, and Changes in Fund Balance**  
**For the Fiscal Year Ended June 30, 2000<sup>(1)</sup>**

	General Fund	Special Revenue Fund	Enterprise Fund	Trust Fund
<b>Revenues:</b>				
State Appropriations	\$ 8,830,533	\$ 0	\$ 0	\$ 0
Tuition and Fees	6,445,993	263,733	96,700	0
Sales and Services <sup>(4)</sup>	2,123	216,362	366,239	0
Room and Board	1,300	0	0	0
Federal Grants	0	971,186	0	0
State Grants	250,089	497,125	0	0
Private Grants	7,895	20,000	0	97,418
Other Income	189,960	9,885	65,147	0
Total Revenues	<u>\$15,727,893</u>	<u>\$1,978,291</u>	<u>\$ 528,086</u>	<u>\$ 97,418</u>
<b>Expenditures/Expenses:</b>				
Salaries	\$12,408,659	\$ 518,166	\$ 243,498	\$ 0
Purchased Services	959,270	65,866	183,778	0
Utilities	323,803	0	591	0
Contract/Consultants	479,933	23,175	4,600	0
Supplies	585,690	53,790	13,945	0
Financial Aid	36,000	1,196,881	0	100,891
Capital Expenditures	63,483	14,700	325	0
Debt Service – Interest	78,682	0	582	0
Other	269,587	62,237	131,834	0
Total Expenditures/Expenses	<u>\$15,205,107</u>	<u>\$1,934,815</u>	<u>\$ 579,153</u>	<u>\$100,891</u>
<b>Transfers:</b>				
Transfers-In	\$ (6,441)	\$ 32,355	\$ 262,426	\$ 6,479
Transfers-Out	0	(48,320)	(262,874)	(6,479)
Net Transfers	<u>\$ (6,441)</u>	<u>\$ (15,965)</u>	<u>\$ (448)</u>	<u>\$ 0</u>
Change in Fund Balance	\$ 516,345	\$ 27,511	\$ (51,515)	\$ (3,473)
Beginning Fund Balance	1,303,086	182,421	1,299,854	9,563
Ending Fund Balance	<u>\$ 1,819,431</u>	<u>\$ 209,932</u>	<u>\$1,248,339</u>	<u>\$ 6,090</u>

Note (1) This statement is prepared on the budgetary basis of accounting and is provided for information purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriations, differs from generally accepted accounting principles. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (mid-September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures is the actual disbursement, not when the goods or services are received. Agency Fund and Capital Project Fund financial activities are not included in Table 1-1. 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. Compensated absences as of June 30, 2000, were estimated at \$1.3 million for the General Fund.

Note (2) The Board Designated Reserve for the General Fund at June 30, 2000, is \$437,056. Also, \$118,351 of the ending fund balance is reserved for future obligations, such as special dedicated appropriations, outstanding encumbrances, and faculty contractual commitments.

Note (3) Enterprise funds do not include all allocable costs such as utilities and administrative costs.

Note (4) The amount shown for Enterprise Fund sales and services has been adjusted by the auditor. During fiscal year 2000, the college double-counted \$187,672 of bookstore sales related to financial aid book vouchers. The Integrated Statewide Record System (ISRS) automatically charged the students' accounts and the related receivables on the bookstore sales account. The college erroneously posted the same sales from the bookstore's daily cash report into MnSCU accounting. Since the college discovered the error after the fiscal year had been closed, it was unable to make the appropriate correction. Enterprise Fund sales and services are shown net of cost of goods sold as follows:

Sales and Services – Gross	\$1,456,665 (adjusted by auditor)
Cost of Goods Sold	1,090,426
Sales and Services – Net	<u>\$ 366,239</u>

Source: Prepared by MnSCU accounting staff.



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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*Inver Hills Community College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. Generally, the college's internal controls provided reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded and in compliance with applicable legal provisions and management's authorization. Except for the inaccurate recording of certain bookstore sales, as described in Note 4 to Table 1-1, the college's financial activities were properly recorded on the MnSCU and MAPS accounting systems. However, the college did not adequately restrict certain computer security clearances. The college maintained an appropriate operating relationship with its foundation.*

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Inver Hills Community College uses the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system (MAPS) to generate warrants from the state treasury for certain activities. MnSCU requires all campuses to use the MnSCU accounting system to account for both money maintained in the state treasury and local activity bank accounts outside the state treasury. Inver Hills Community College administers certain funds, such as agency accounts and enterprise activities, in a local bank account. The local bank account also serves as the college's state depository for the transfer of funds into the state treasury.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Inver Hills Community College and all other MnSCU campuses based on an allocation formula. Inver Hills Community College, like all other MnSCU institutions, retains its tuition and other dedicated revenues to arrive at total available resources.

Inver Hills Community College is affiliated with the Inver Hills Community College Foundation, a non-profit organization. The foundation has its own board of directors, articles of incorporation and by-laws. The college provided administrative support to the foundation. The foundation's financial statements are prepared and subjected to an external audit by a CPA firm in accordance with MnSCU policy.

### **Audit Objectives and Methodology**

Our review of Inver Hills Community College's financial management focused on the following questions:

## **Inver Hills Community College**

- Did the college's internal controls provide reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did the college establish an appropriate operating relationship with its foundation?

To answer these questions, we interviewed college staff 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 gained an understanding of internal 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 the college properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we reviewed the college's budgetary process with college administrators. We also reviewed the college's agreement with its foundation. Finally, we reviewed the administration of security privileges to determine whether the college adequately restricted access to its computerized business systems.

### **Conclusions**

Inver Hills Community College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. Generally, the college's internal controls provided reasonable assurance that state treasury and local bank account financial activities were adequately safeguarded and in compliance with applicable legal provisions and management's authorization. Except for the inaccurate recording of certain bookstore sales, as described in Note 4 to Table 1-1, the college's financial activities were properly recorded on the MnSCU and MAPS accounting systems. However, as discussed in Finding 1, the college did not adequately restrict certain computer security clearances. The college maintained an appropriate operating relationship with its foundation.

#### **1. Inver Hills Community College did not adequately restrict certain computer security clearances.**

Inver Hills Community College did not have a process to adequately monitor or control access to its computerized business systems. We identified the following system security weaknesses:

- Eight Inver Hills Community College's employees had incompatible clearances to the MnSCU accounts receivable module. The clearances gave the employees full access to

## **Inver Hills Community College**

perform a variety of cashiering, accounts receivable, receipt correction, and tuition waiver functions.

- Two college employees with clearance to the accounts receivable module did not need the access to perform their job duties.

Individuals who perform cashiering functions should not have access to adjust accounts receivable records or process waivers. Providing employees that handle cash with the ability to post non-cash waivers increases the risk that cash shortages could be concealed. The cashiers' ability to cancel or adjust accounts receivable records increases the risk of errors or irregularities occurring and going undetected. Granting unneeded access to individuals makes the college vulnerable to unauthorized transactions and disclosure of confidential data.

### *Recommendations*

- *Inver Hills Community College should develop a review process to limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.*
- *Inver Hills Community College should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*

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## Chapter 3. Tuition, Fees, and Other Revenue

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### *Chapter Conclusions*

*Inver Hills Community College's internal controls provided reasonable assurance that tuition, fees, and customized training revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict access to the accounts receivable module. In addition, controls over daycare center revenues are inadequate.*

*For the items tested, Inver Hills Community College complied with applicable finance-related legal provisions.*

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Inver Hills Community College collected approximately \$6.8 million in tuition and fees during fiscal year 2000. The college registered, billed, and collected tuition and fees on the College Information System during fiscal years 1998 and 1999. Beginning in fiscal year 2000, the college implemented the new MnSCU Integrated Statewide Record System (ISRS) accounts receivable module to register, bill, and collect tuition.

Students paid their tuition and fees at the cashier windows in the business office. Staff entered collections into the system, which automatically applied the money against the outstanding balances in a specified priority order. Each morning, as part of the daily closeout process, a system report was printed summarizing the day's collections and postings. The staff used this report to balance the cash registers and post transactions to MnSCU accounting and MAPS. A courier delivered the deposit to the bank each day.

Board authorized tuition rates for the 2000 – 2001 school year were \$68.19 per credit for residents of Minnesota and reciprocity states and \$136.38 per credit for residents of other states. The MnSCU accounts receivable module automatically charged student accounts when students registered for classes.

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education and contract training courses. The college offered continuing education courses to the public and developed contract training courses to meet the educational needs of a specific business or industry. The college collected about \$750,000 from these courses. The college used the ISRS to register students in customized training courses.

Inver Hills Community College also operates a daycare center that provides daycare services for students, college staff, and the general public. The daycare center is licensed for a maximum of 60 children, but approximately 35 to 40 children attend each day.

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At the beginning of each term, parents enter into a contract with the daycare center. The parents complete a form indicating the times and dates that daycare will be needed. The parents are required to complete various medical forms and to read through the daycare parent handbook.

The daycare center employs a director, an assistant director, two teachers, an aid, and approximately four to five work-study students. Table 3-1 shows the daycare's revenues and expenditures.

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**Table 3-1**  
**Daycare Center Revenues and Expenditures**  
**Fiscal Years 1998 to 2000**

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues	\$162,806	\$178,986	\$209,460
Expenditures	164,959	171,158	190,353
Income/(Loss)	<u>\$ (2,153)</u>	<u>\$ 7,828</u>	<u>\$ 19,107</u>

Source: MnSCU Accounting System.

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## Audit Objectives and Methodology

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

- Did the college'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?
- For the items tested, did the college comply with material finance-related legal provisions concerning tuition, fees, and other revenue?

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

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## Conclusions

Inver Hills Community College's internal controls provided reasonable assurance that tuition, fees, and customized training revenue collections were adequately safeguarded and accurately reported in the accounting records, and were processed in accordance with applicable legal provisions and management's authorization. However, as explained in Chapter 2, Finding 1, the college did not adequately restrict access to the accounts receivable system. In addition, as discussed in Finding 2, controls over daycare center revenues were inadequate. For the items tested, the college complied with material finance-related legal provisions concerning tuition, fees, and other revenue.

### **2. Inver Hills Community College's controls over the collection of daycare center receipts were inadequate.**

Inver Hills Community College did not have sufficient controls over the collection of daycare center receipts. The daycare center revenues are supported by hand-written receipts instead of a cash register. The sign-in register is used to determine how many hours to charge each parent, and the hours and rate are manually entered on receipt tickets. The payments along with the receipts are kept in a safe until the business office picks them up. No independent verification is performed to ensure that all receipts earned and collected are deposited.

Inver Hills Community College should perform an independent review of the daycare center receipts. Having a manual system of collecting revenues without independent monitoring increases the risk that errors and other irregularities, such as theft, could occur and not be detected.

#### *Recommendation*

- *Inver Hills Community College should strengthen controls over the collection of daycare receipts by performing routine independent spot-checks.*

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## Chapter 4. Employee Payroll

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### *Chapter Conclusions*

*Inver Hills Community College's internal controls provided reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization.*

*For the payroll transactions tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.*

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Payroll was Inver Hills Community College's largest expenditure. The college's employee payroll expenditures for fiscal year 2000 were about \$13 million. College employees belong to various compensation plans:

- American Federation of State, County, and Municipal Employees,
- Middle Management Association,
- Minnesota Association of Professional Employees,
- Administrators Plan,
- Commissioners Plan, and
- Minnesota Community College Faculty Association.

The college maintained separate human resource and payroll offices to handle personnel and payroll transactions. The college used the State's Employee Management System (SEMA4) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll and human resource information. Human resource staff input personnel transactions into SCUPPS while payroll staff ensured the accuracy of employee payroll data in SEMA4 and payroll expenditures in the MnSCU accounting system. Salary and payrate history is maintained in SCUPPS and used to manage and monitor compensation paid to faculty and employees. SCUPPS assignment codes identify different types of instructional and non-instructional assignments for faculty appointments. The college also used the SCUPPS leave module to monitor faculty and administrators' leave.

The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions, including Inver Hills Community College. To perform its contractual duties, the contractor needed access to certain retirement data on SCUPPS. The security clearance granted by the MnSCU system office provided broader access than needed, including the ability to create a new employee record, modify personnel data, and update employee assignments and salaries. However, the contractors were not given the ability to initiate or schedule payroll disbursements.

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MnSCU accepts the level of risk caused by the contractor's broad access to update SCUPPS. The MnSCU system office did not design a unique security group to restrict the contractor's access to the minimum level necessary to fulfill its contractual duties. Rather, the MnSCU system office relied on various college detective controls to identify any unauthorized transactions that could potentially occur.

### **Audit Objectives and Methodology**

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

- Did the college's internal controls provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with material finance-related legal provisions and applicable bargaining unit agreements?

To answer these questions, we obtained an understanding of the internal control structure over the employee payroll and personnel processes. We interviewed college human resource and payroll employees to gain an understanding of the computerized systems, and we observed procedures used to process and reconcile payroll transactions. We also reviewed the system security clearances to payroll and human resource data. Finally, we analyzed payroll data and performed detailed tests of employee transactions to support our conclusions.

### **Conclusions**

Inver Hills Community College's internal controls generally provided reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the payroll transactions tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

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## Chapter 5. Enterprise Fund Activities

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### *Chapter Conclusions*

*Except for the inaccurate recording of certain fiscal year 2000 bookstore sales, as described in Note 4 to Table 1-1, Inver Hills Community College's internal controls generally provided reasonable assurance that bookstore financial transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization.*

*For the items tested, Inver Hills Community College complied with material finance-related legal provisions concerning bookstore operations.*

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Inver Hills Community College owns and operates its bookstore. It sells new and used books, computers, computer software, school supplies, apparel, and other miscellaneous items. Book sales account for about 93 percent of total sales.

The bookstore processed its sales through cash registers. The cash registers were linked to a point-of-sale software package that records all of the sales activity entered. The students could pay in the form of cash, check, credit card, or financial aid. At the end of the business day, bookstore employees closed out the cash registers, performed cash counts, and printed summary reports from the point-of-sale software system. The receipts were kept overnight in a safe located in the bookstore manager's office. The following morning, the bookstore manager reconciled the receipts to the system's sales report totals and brought the receipts to the business office for deposit. A business office employee posted the bookstore's sales transactions to a spreadsheet and to MnSCU accounting using the summary totals report data.

New and used book purchases is the major bookstore disbursement. The bookstore placed all the orders for inventory items. The bookstore used purchase orders through the MnSCU accounting system. When items were received and reconciled to the purchase order, the invoice was brought to the business office for payment. Business office staff verified the amount and item description and processed the payment using the MnSCU accounting check writer program.

During fiscal year 2000, the college mistakenly double counted \$187,672 of bookstore sales related to financial aid book vouchers. The Integrated Statewide Record System (ISRS) automatically charged the students accounts and the related receivable on the bookstore's sales account. However, the college erroneously posted the same sales from the bookstore's daily cash report into MnSCU accounting. Since the college discovered the error after the fiscal year had been closed, it was unable to make the appropriate correction. The auditor adjusted gross sales and services in both Table 1-1 and Table 5-1 to eliminate the \$187,672 overstatement.

Table 5-1 summarizes the bookstore income and expense statement for fiscal year 2000.

# Inver Hills Community College

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**Table 5-1**  
**Statement of Income -- Bookstore**  
**Fiscal Year 2000**

Revenue:	
Sales <sup>(Note 2)</sup>	\$1,426,341
Other Revenue	<u>4,824</u>
Total Revenue	<u>\$1,431,165</u>
Cost of Goods Sold	<u>\$1,090,348</u>
Gross Margin	<u>\$ 340,817</u>
Expenses:	
Payroll	\$ 223,762
Other Operating Expenses	71,185
Indirect Costs	<u>8,513</u>
Total Expenses	<u>\$ 303,460</u>
Net Income	<u>\$ 37,357</u>

Note 1: Our objectives did not include providing an opinion on the bookstore's financial statements. These amounts are presented for informational purposes only.

Note 2: Reduced by \$187,672 due to the overstatement of sales on MnSCU accounting.

Source: Bookstore financial records as adjusted by the auditor.

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## Audit Objectives and Methodology

Our review of Inver Hills Community College's bookstore and daycare activities focused on the following questions:

- Did the college's internal controls provide reasonable assurance that bookstore revenue collections were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that bookstore expenses were properly authorized and accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with material finance-related legal provisions concerning bookstore operations?

To answer these questions, we interviewed bookstore staff to gain an understanding of their operations and determined how revenues and expenses were processed. We reviewed the controls over the bookstore revenue and expense processes and inventories. We sampled bookstore revenues generated by daily sales activity. We also performed detailed tests of bookstore expenses.

# **Inver Hills Community College**

## **Conclusions**

Except for the inaccurate recording of certain fiscal year 2000 bookstore sales, as described above and in Note 4 to Table 1-1, Inver Hills Community College's internal controls generally provided reasonable assurance that bookstore revenues were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization.

For the items tested, Inver Hills Community College complied with material finance-related legal provisions concerning bookstore operations.

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## Chapter 6. Administrative Expenditures

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### *Chapter Conclusions*

*Inver Hills Community College's internal controls provided reasonable assurance that assets were safeguarded and purchased services, consultant contracts, supplies, and equipment expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization.*

*For the items tested, the college complied with material finance-related legal provisions and management's authorization.*

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Inver Hills Community College spent approximately \$8.2 million during the audit period on operating expenditures for purchased services, consultant contracts, supplies, and equipment. This amount includes \$967,817 of construction expenses. The college's administrative and academic departments initiated purchase requests and submitted them to the business office for processing. The college used the MnSCU Purchase Control System, which encumbered available funds. The business office ordered the goods and services, following MnSCU guidelines to solicit bids and select vendors. After the college received the goods or services, the business office matched the invoice and the requisition before processing payment. The college entered equipment purchases greater than \$2,000 into the ISRS equipment module and assigned a state fixed asset number.

### **Audit Objectives and Methodology**

Our review of Inver Hills Community College's purchased services, contracts, supplies, and equipment expenditures focused on the following questions:

- Did the college's internal controls provide reasonable assurance that administrative expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- Did the college comply with material finance-related legal provisions concerning administrative expenditures?

To answer these questions, we interviewed Inver Hills Community College's employees to gain an understanding of the internal control structure over the expenditure process. We reviewed a sample of expenditure transactions in each area to determine if they were properly authorized,

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processed, and recorded. We also reviewed expenditures to determine if the college complied with MnSCU policies and other material finance-related legal provisions.

### **Conclusions**

Inver Hills Community College's internal controls provided reasonable assurance that assets were safeguarded, and administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with material finance-related legal provisions and management's authorization.



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## Chapter 7. Student Financial Aid

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### *Chapter Conclusions*

*Inver Hills Community College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable regulations. The college's internal controls over packaging and awarding student financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts.*

*For the items tested, the college complied with applicable federal and state requirements over receiving federal and state funds and preparing applicable federal and state reports.*

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The college participates in the following student financial aid programs administered by the U.S. Department of Education and the State of Minnesota:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplementary Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- Minnesota State Grant Program

The college used the MnSCU Integrated Statewide Record System (ISRS) financial aid module to package and award financial aid in fiscal year 2001. The financial aid module interfaces with other modules within ISRS, such as the accounts receivable and student records modules. It electronically receives and stores the Student Aid Report from the federal processor and accepts and stores the institutional financial aid application and tax data from the student. The system compares data provided by the student to the Student Aid Report. Any discrepancies between the two sets of data, beyond established tolerances, are identified through a verification process.

### **Audit Objectives and Methodology**

Our review of Inver Hills Community College's student financial aid programs, as of March 2001, focused on the following questions:

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

## **Inver Hills Community College**

- Did the college's internal controls over packaging and awarding student financial aid provide reasonable assurance that only eligible students received aid in the appropriate amounts?
- For the items tested, did the college comply with applicable federal and state requirements over receiving federal and state funds and preparing applicable federal and state reports?

To answer these questions, we interviewed employees from the college's financial aid and business offices in order to gain an understanding of the financial aid process. We reviewed and tested controls over compliance with federal and state legal requirements for packaging, awarding, and disbursing student financial aid for fiscal year 2001. We also reviewed and tested the college's federal cash management procedures.

### **Conclusions**

Inver Hills Community College's internal controls provided reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable regulations. The college's internal controls over packaging and awarding student financial aid provided reasonable assurance that only eligible students received aid in the appropriate amounts.

For the items tested, the college complied with applicable federal and state requirements over receiving federal and state funds and preparing applicable federal and state reports.

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## Status of Prior Audit Issues As of June 15, 2001

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### Most Recent Audits

#### College Audit

**Legislative Audit Report 97-54**, issued in November 1997, covered the college's material activities and programs, including tuition, fees, employee payroll, student financial aid, and bookstore operations. The report contained nine findings. The college implemented the recommendations for all of these findings.

#### Statewide Audits

**Legislative Audit Report 01-15**, issued in March 2001, **Legislative Audit Report 00-11**, issued in March 2000, and **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, or the Single Audit, for the years ended June 30, 2000, 1999, and 1998, respectively. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. The report for the year ended June 30, 1998, contained one finding related to student financial aid at Inver Hills Community College, and the college implemented this recommendation.

#### 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. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

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# INVER HILLS

## COMMUNITY COLLEGE

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September 24, 2001

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Room 140 Centennial Building  
658 Cedar St  
St. Paul, Mn. 55155-1603

Dear Mr. Nobles:

In response to the recent audit findings and recommendations contained in the financial audit report of Inver Hills Community College for the period July 1, 1997 through June 30, 2000, the following actions will be taken:

### Chapter 2. Financial Management

Finding 1. Inver Hills Community College did not adequately restrict certain computer security clearances

#### Recommendations:

- Inver Hills Community College should develop a review process to limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data.
- Inver Hills Community College should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.

#### Response:

The College agrees with the finding and is initiating several steps to implement the recommendations. By October 1<sup>st</sup>, we will review the security access of the College staff to the MnSCU accounts receivable module, develop a security profile of those staff members, determine where any possible conflicts exist, and, where conflicts exist, investigate the reasons for the lack of separation of duties.

As a second step in this process, we will remove any accounts receivable functions not required by College staff to perform their jobs. In addition, to provide additional assurance that those College employees who have possible security conflicts are not creating a separation of duties problem, the College will implement two new procedures. In the case of tuition waivers performed by such College staff, the tuition waiver form or documentation will be countersigned by either the Director of Business Services or the Director of Administrative Services. Then, once a semester a report of waiver transactions will be prepared from the MnSCU replicated database and compared to the tuition waiver form/documentation to confirm all waiver transactions were legitimate. For other transactions resulting in a reduction of charges or payments to a student's account, we will develop a form to record the transaction, require the form to be countersigned by either the Director of Business Services or the Director of Administrative Services, develop a report to capture the reductions, and reconcile the report to the forms. We hope to accomplish these tasks by the end of October.

2500 80 Street East, Inver Grove Heights, MN 55076-3224 • 651.450.8500  
Disabled Student Services Office. 450-8628, Voice; 450-8369, TTY  
*Inver Hills is an equal opportunity educator/employer*

Finally, we will review MnSCU accounts receivable security access once every three months beginning with December of 2001.

Responsible Employees-Larry Margolis, Rose Davis, and Kay Buhl

### Chapter 3. Tuition, Fees, and Other Revenue

Finding 2. Inver Hills Community College's controls over the collection of daycare center receipts were inadequate.

Recommendation:

- Inver Hills Community College should strengthen controls over the collection of daycare receipts by performing routine independent spot-checks.

Response:

The College agrees with this recommendation. We are initiating two procedures to implement this recommendation. To monitor the correct charges are being collected, Rose Davis has initiated the following procedure to spot-check daycare receipts.

1. By the 15<sup>th</sup> of each month, collects the sign-in sheets and all receipt forms for the previous month.
2. Selects at least one child each month to review. Determines how many hours the child was enrolled during the selected week.
3. Calculates the amount of charges for the selected week.
4. Compares the calculated charges with the receipt form to verify the daycare center collected the correct fees.
5. Makes copies of sign-in sheets and receipt forms and files in the daycare audit book located in the Business Office.

The second procedure involves tracking the daycare's numbered receipts and matching the receipts deposited against the receipts. This procedure will be initiated by October 8, 2001.

1. Record the sequence of daycare receipt form numbers on a spreadsheet.
2. Daycare staff completes the receipt form for each client, including on the receipt the initials of the staff member receiving the payment, the date of the payment, and the form of payment-cash, agency, or check (notes check number on the receipt).
3. The Daycare staff completes a daily cash report.
4. The Business Office picks up the daily cash report, the day's receipts, and the receipt forms.
5. The Business Office verifies the information on the Daycare's daily cash report, matching the amount of program fees recorded on the daycare receipt forms with the cash and checks to be deposited.
6. Enters each payment on ISRS using a unique Daycare vendor number.
7. Records the deposit date of each receipt form on the spreadsheet discussed in #1 above.
8. Returns the paid receipt to the Daycare for their records.
9. Follow up at least monthly on any receipt forms not accounted for.

We wish to thank the Legislative Auditor's staff for their review and recommendations. If you have any follow-up questions or concerns, please contact Larry Margolis at 651-450-8522.

Sincerely,

*/s/ Cheryl Frank*

Dr. Cheryl Frank  
President

Cc: Chancellor James McCormick  
Vice Chancellor Laura King  
Exec. Dir., Internal Audit John Asmussen