OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Anoka-Hennepin Technical College

July 1, 1997, through June 30, 2000

OCTOBER 11, 2001 **01-50**

Financial Audit Division

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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Ms. Anne Weyandt, President
Anoka-Hennepin Technical College

We have audited Anoka-Hennepin Technical College for the period July 1, 1997, through June 30, 2000, as further explained in Chapter 1. Our audit scope included tuition and fees, employee payroll, administrative expenditures, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 2001. We highlight the audit objectives and conclusions 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 Anoka-Hennepin Technical 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 Anoka-Hennepin Technical College, and management of the Minnesota State Colleges and Universities. The restriction is not intended to limit the distribution of this report, which was released as a public document on October 11, 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 4, 2001

Report Signed On: October 4, 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
Brad White, CPA, CISA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
George Deden, CPA	Auditor
Gena Hoffman	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the MnSCU system office and Anoka-Hennepin Technical College at an exit conference held on September 14, 2001:

MnSCU System Office:	
Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Margaret Jenniges	Director of Financial Reporting
Anoka-Hennepin Technical College:	
Anne Weyandt	President
Tom Silvers	Vice President of Finance

Report Summary

Anoka-Hennepin Technical College's budgetary controls provided reasonable assurance that it operated within available resources. The college completed reconciliations to ensure that financial activities were accurately recorded in the accounting records. The college's internal controls generally 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.

Key Findings:

- The college did not adequately restrict certain employee access to its computerized information systems. We recommended restricted access, or the development of detective controls, to minimize the risks caused by incompatible duties. (Finding 1, page 7)

- The college did not adequately monitor and control daily cashier activities. Cashiers commingled daily collections in a single cash drawer and were responsible for posting accounts receivable adjustments and tuition waivers. Staff in the tuition office shared one system logon ID making it difficult to track transactions and shortages to a specific user. We also found nonstandard practices for processing employee tuition waivers. (Findings 2 and 3, pages 11 and 12)

- The college did not have an adequate process to monitor and follow-up on outstanding receivables for contract customized training. Outstanding receivables totaling $187,000 were over one year old. (Finding 4, page 12)

- The college's controls over bookstore activities need improvement. We recommended tracking sales by individual salesperson, promptly depositing receipts, timely posting accounting transactions, and having an independent review of sales returns. We also noted that certain expenses recorded in the accounting system were not included in internally-prepared financial statements prepared for college management. (Finding 5, page 19)

Anoka-Hennepin Technical 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, and bookstore 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.

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Chapter 1. Introduction

Anoka-Hennepin Technical College is part of the Minnesota State Colleges and Universities (MnSCU) system. The college provides over 1,400 full-year equivalent students with two-year degree and certificate programs in diverse areas such as machinist, construction electrician, surgical technology, aviation, horticulture, information technology, and culinary arts. The college also offers customized training courses and the Secondary Technical Education Program (S.T.E.P.). S.T.E.P. is a joint effort between Anoka-Hennepin School District, MnSCU, and Anoka County. It is a career and technical education high school program for 11th and 12th grade students in the Anoka-Hennepin School District. High school students take career training programs on the Anoka-Hennepin Technical College campus.

The mission of Anoka-Hennepin Technical College is to provide quality technical and general education for employment, workforce development, and lifelong learning through partnerships with business, industry, and the community. Ms. Anne Weyandt was appointed president of the college on April 18, 2001, after having served as interim president since May 2000.

In January 2000, the MnSCU Board approved moving Anoka-Hennepin Technical College's programs to Hennepin Technical College and Anoka-Ramsey Community College due to the high cost of building renovation. However, in the 2000 Legislative Session, the Legislature approved $12.5 million in capital bonding for roof repair and replacements; heat, ventilation, and air conditioning improvements; repairs and remodeling; and demolition. The capital funding allowed Anoka-Hennepin Technical College programs to remain at its Anoka campus.

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 the Enterprise Fund for the fiscal year ended June 30, 2000. The Special Revenue Fund includes federal and state student financial aid transactions. The Enterprise Fund includes bookstore financial activities.

Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 2000

	General Fund	Special Revenue Fund	Enterprise Fund
Revenues:			
State Appropriation	$ 8,465,554	$ 0	$ 0
Tuition and Fees	4,415,345	95,312	81,828
Sales and Services, Net (Note 3)	255,885	184,934	140,540
Federal Grants	0	1,046,128	0
State Grants	359,435	397,934	0
Private Grants	198,222	0	0
Other Income	38,644	15,633	66,159
Total Revenues	$13,733,085	$1,739,941	$288,527
Expenditures/Expenses:			
Salaries and Benefits	$10,106,104	$ 514,726	$ 90,457
Purchased Services	1,098,774	19,566	61,907
Utilities	508,401	1,315	1,618
Contracts/Consultants	614,983	41,397	22,789
Supplies	1,159,029	86,803	1,565
Financial Aid	4,500	978,919	0
Capital Expenditures	485,414	29,917	4,760
Debt Service/Capital Lease	147,769	0	0
Other	198,404	24,320	92
Total Expenditures/Expenses	$14,323,378	$1,696,963	$183,188
Transfers:			
Transfers-In	$ 622,980	$ 146,862	$ 6,552
Transfers-Out	(333,672)	(8,328)	(24,419)
Net Transfers	289,308	138,534	17,867)
Change in Fund Balance	(300,985)	181,512	87,472
Beginning Fund Balance (Note 4)	1,680,585	(76,805)	512,579
Ending Fund Balance	$ 1,379,600	$ 104,707	$600,051

Note 1: This statement is prepared on the budgetary basis of accounting and is provided for informational purposes only. MnSCU budgetary accounting, which is the basis for annual budgets and the allocation of state appropriation, differs from generally accepted accounting principles. MnSCU budgetary accounting includes all receipts and expenditures up to the close of the books (early September) for the budget fiscal year. Revenues not yet received by the close of the books are not included. The criteria for recognizing expenditures are the actual disbursement, not when the goods or services are received. Capital project revenues and expenditures are not included. Long-term liabilities are not reported in 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. Compensated absences as of June 30, 2000, were estimated at $891,624 for the General Fund.

Note 2: The Board Designated Reserve for the General Fund at June 30, 2000, is $732,307. Also, $212,133 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.

Sales and Services – Gross	$ 620,059
Cost of Goods Sold	(479,519)
Sales and Services – Net	$ 140,540

Note 4: The negative beginning fund balance is the result of prior reporting problems with some federal financial aid programs as reported in our last audit. The college contacted the federal government to resolve the issue and ultimately transferred $137,213 from the General Fund in fiscal year 2000.

Source: Prepared by MnSCU accounting staff.

Chapter 2. Financial Management

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that financial activities were accurately recorded in the accounting records. 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. However, we found that the college did not adequately restrict certain computer security clearances as discussed in Finding 1. In addition, we found that the college's bank account did not have sufficient collateral during peak periods. The college subsequently increased the amount of bank assigned collateral to adequately secure the account. Finally, we noted that the college had an appropriate relationship with its foundation.

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

Once the college determines its authorized spending level, it allocates funding to the various administrative and academic programs. The college generates monthly financial reports that it distributes to program managers. College management and program managers review the reports to determine the financial status of the programs.

Anoka-Hennepin Technical College uses the MnSCU accounting system to record financial transactions for activities within the state treasury and activities maintained outside the state treasury. MnSCU accounting transactions that impact funds held in the state treasury 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. Anoka-Hennepin Technical 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 treasury depository. 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 peak tuition collection times during the audit period, the college's local bank account balance exceeded required collateral amounts by as much as $223,000. In

September 2000, the college requested the bank to increase the collateral from $1 million to $1.7 million to adequately secure its account.

To ensure the accuracy of its financial data, the college performed monthly bank reconciliations on its local bank account during the audit period. It also performed monthly reconciliations between MnSCU accounting and MAPS. The college developed numerous queries to use during the reconciliation process.

Anoka-Hennepin Technical College is affiliated with the Anoka-Hennepin Technical College Foundation, an autonomous, non-profit organization. The two organizations entered into an agreement that established the responsibilities of each organization. The college provided administrative support to the foundation during the audit period. The foundation's mission is to obtain and distribute the resources necessary to support the students, faculty, programs, and vision of the Anoka-Hennepin Technical College. In fulfilling this mission, the foundation offers scholarships and grants to students. The foundation prepares annual financial statements that are subject to an audit by an independent CPA firm.

Audit Objectives and Methodology

The primary objective of our review of Anoka-Hennepin Technical College's financial management structure was to address the following questions:

- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that state treasury and local bank 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 personnel to gain an understanding of the college's use of the MnSCU accounting system for the programs in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and reconciliations, in place over state treasury and local bank activities. We analyzed and reviewed MnSCU transactions posted to the accounting records to determine if the college properly recorded its state treasury and local bank activities. We also reviewed local bank activity to determine compliance with collateral requirements. We reviewed security privileges to determine whether the college adequately limited employee access to its computerized business systems. Finally, we reviewed the college's relationship with its foundation.

Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that it operated within available resources in compliance with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that financial activities were accurately recorded in the accounting records. The college's internal controls generally 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. However, we found that the college did not adequately restrict certain computer security clearances as discussed in Finding 1. In addition, we found that the college's bank account did not have sufficient collateral during peak periods. The college subsequently increased the collateral on the account to adequately secure the account. We also noted that the college had an appropriate relationship with its foundation.

1. PRIOR FINDING PARTIALLY RESOLVED: The college did not adequately restrict certain employee's access to its computerized business systems.

Anoka-Hennepin Technical College did not adequately restrict certain computer security clearances to the MnSCU accounting system and the SCUPPS and SEMA4 personnel/payroll systems. We identified the following system security access weaknesses.

- Two employees had the ability to update bargaining, appointment, and assignment information in SCUPPS and process payroll transactions in SEMA4. Access to these functions in both systems could allow an employee to make unauthorized personnel changes and initiate improper payroll transactions.

- Three employees had the ability to enter a forced encumbrance, process payments, and reconcile the bank account. Having the ability to process encumbrances and payments results in an inadequate separation of duties between the purchasing and disbursing functions. In addition, employees with the ability to make payments should not be involved in the bank statement reconciliation. This eliminates the independent review of those transactions.

- The college gave several employees access to incompatible security groups. The college gave nine users access to cashiering and accounts receivable functions, as well as the ability to initiate non-cash waivers. Ideally, individuals who perform cashiering functions should not have access to waive or adjust accounts receivable records. Staff with access to cash should not have the ability to enter transactions that could potentially hide the misappropriation of cash.

Recommendation

- *Anoka-Hennepin Technical College should limit access to its computer systems to ensure an adequate separation of duties and prevent unauthorized access to data. If the college is unable to eliminate incompatible access due to staffing constraints, it should develop detective controls to provide for a periodic independent review of employees' work.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, employees' access to the college's computerized business systems was not sufficiently restricted. We also determined that the college did not adequately monitor and control daily cashier activities. Cashiers commingled daily collections in a single cash drawer and were responsible for the posting of tuition waivers. Furthermore, staff shared one system logon ID, which made it difficult to track transactions and shortages to a specific user. We also noted that unusual practices were being used to process employee tuition waivers. Another concern was raised regarding the lack of an adequate process to monitor and follow-up on outstanding receivables for contract customized training. The college had $187,000 of outstanding receivables that were over one year old. For the items tested, the college complied with finance-related legal provisions concerning tuition and fees.

Anoka-Hennepin Technical College collected approximately $4.6 million in tuition and fees during fiscal year 2000. The college registered, billed, and collected tuition and fees on the Minnesota Multi-Campus Student Information System (MSIS) during the early part of the audit period. The college later implemented the new MnSCU Integrated Student Record System (ISRS) accounts receivable module to register and bill students and record tuition collections. The accounts receivable module accumulates student charges from a variety of sources. When students pay their bill at the tuition office, staff enter the collections into the system, and the system automatically applies the money to the outstanding balances in a specified priority order. As part of the closeout process, college staff produce a report that summarizes the day's collections and postings. College staff use this report to balance the cash registers to transactions posted to MnSCU accounting.

The MnSCU Board of Trustees authorized tuition rates for the 1999 – 2000 school year of $69.50 per semester credit for residents of Minnesota and other states participating in tuition reciprocity programs. Nonresident and nonreciprocity tuition rates were $139 per semester credit.

In addition to credit-based tuition revenue, the college collected revenue for customized training, including continuing education and contract training courses. The college offered continuing education courses to the public and entered into contracts to develop training courses to meet the educational needs of specific businesses or industries. During fiscal year 2000, the college collected about $1.5 million in customized training revenue. The college used Data Pro during the audit period to track customized training courses, revenue, and receivables.

Audit Objectives and Methodology

The primary objective of our review of tuition and fees was to answer the following questions:

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

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

To meet these objectives, we interviewed college employees to gain an understanding of controls over tuition and fees. We reviewed tuition and fee rates, student registration data, accounts receivable records, and MnSCU accounting records to determine if the college charged appropriate rates, collected earned revenue, and properly recorded revenue transactions in the MnSCU accounting system. We also reviewed bank deposit documentation to determine if the college properly safeguarded and deposited all collected tuition and fees in compliance with applicable legal provisions. Finally, we reviewed the college's procedures for monitoring and collecting outstanding accounts receivable balances.

Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 1, employees' access to the college's computerized business systems was not sufficiently restricted. We also determined that the college did not adequately monitor and control daily cashier activities. Cashiers commingled daily collections in a single cash drawer and were responsible for the posting of tuition waivers. Furthermore, staff shared one system logon ID, which made it difficult to track transactions and shortages to a specific user. We also noted that unusual practices were being used to process employee tuition waivers. Another concern was raised regarding the lack of an adequate process to monitor and follow-up on outstanding receivables for contract customized training. The college had $187,000 of outstanding receivables that were over one year old. For the items tested, the college complied with finance-related legal provisions concerning tuition and fees.

2. Anoka-Hennepin Technical College did not adequately monitor and control daily cashier transactions and tuition waivers.

The college's procedures for daily cashier activities, including tuition waivers, had several weaknesses. These weaknesses increased the risk that errors or irregularities related to cash collections could occur without detection. We noted the following concerns.

- Multiple college employees used one logon ID to enter daily receipt transactions into ISRS. Tuition office employees entered a generic logon ID into the computers at the tuition counter in the morning, and all employees using the terminal entered transactions under the same logon ID. In addition, the college commingled all collections in one cash drawer in the tuition office. These practices made it difficult to track transactions and overages/shortages to a specific user.

- Employees independent of the cashiering function did not review the cashiers' work. Cashiers were responsible for counting cash at the end of each day and comparing it to the daily cash close-out report from MnSCU accounting. However, no one independent of the cashiers reviewed this information. An independent review would provide assurance against cash shortages occurring within the cash receipt processing.

- The college assigned the responsibility for entering tuition waiver transactions to its cashiers. Waiver transactions are highly sensitive since they reduce or eliminate a student charge or other amount due to the college. Giving cashiers the ability to post non-cash waivers increases the risk that an employee could misappropriate cash by collecting the tuition and waiving the charge in the student's account.

- The college did not develop reports to monitor tuition waiver transactions recorded in ISRS. Without a monitoring process, the college is unable to identify possible errors or irregularities.

Recommendations

- *Anoka-Hennepin Technical College should improve controls over monitoring and controlling daily cashier activities by:*

  - *using individual logon IDs and cash drawers to track transactions to a specific user,*
  - *having someone independent of the cashiering function review daily close-out reports and cash collections,*
  - *assigning responsibility for the input of tuition waiver transactions to employees who do not handle cash or collect tuition, and*
  - *developing a management report to monitor tuition waiver transactions recorded in ISRS.*

3. The college did not process employee tuition waivers according to MnSCU's established procedures.

The college did not follow MnSCU's prescribed process for posting employee tuition waivers in the accounting system. It did not use the MnSCU accounting waiver transactions to record employee tuition waivers. Rather, the college paid the employees' tuition out of college funds with a state treasury warrant. By not using the prescribed accounting system transactions, including the assignment of waiver codes, the college is unable to easily track the cost and category of employee tuition waivers. As a result, Anoka-Hennepin Technical College's waiver transactions may not be consistent with other MnSCU campuses.

Recommendation

- *Anoka-Hennepin Technical College should follow MnSCU procedures for processing employee waivers.*

4. Anoka-Hennepin Technical College did not have an adequate process to monitor and follow-up on outstanding receivables for contract customized training.

The college did not have an adequate process to monitor and follow-up with customers who did not pay for contract customized training. The college properly invoiced customers after the completion of a contract customized training course. However, the college did not consistently send subsequent statements or notices if the customer did not make payment on the original invoice. In June 2001, the college prepared a spreadsheet showing outstanding accounts receivable of $187,000 dating back to May 2000. The lack of effective receivable monitoring and timely follow-up process increases the likelihood of default after the first few months. Due diligence in pursuing collection of old, outstanding receivables is important for the college to avoid losing revenue. During fiscal year 2001, the college began using MnSCU's new customized training module, but we found that no accounts receivable aging function was available to help the college identify delinquent accounts.

Recommendation

- *Anoka-Hennepin Technical College should monitor and follow-up on outstanding receivables for contract customized training.*

Chapter 4. Employee Payroll

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that employees were accurately paid in compliance with applicable compensation plans and management's authorization, and that payroll expenditures were accurately reported in the accounting records. However, we noted, in Chapter 2, Finding 1, that the college assigned incompatible access to human resource and payroll functions to two users. For the items tested, the college complied with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans.

Payroll is the largest expenditure for Anoka-Hennepin Technical College. The college's payroll expenditures, including fringe benefits, for fiscal year 2000 totaled approximately $10.7 million. The college employs approximately 290 faculty and 120 staff employees. College employees belonged to the following compensation plans:

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

The college used the state's payroll system (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stored salary and pay rate information, tracked leave accruals for faculty and excluded administrators, and interfaced transactions into SEMA4. SEMA4 calculated the amounts paid to employees and tracked leave accruals for classified and some unclassified employees.

The college maintained separate human resource and payroll offices to process personnel and payroll transactions. Human resources staff entered all new employee data and made personnel and salary changes directly to employees' records in SCUPPS. Payroll staff gathered timesheets from classified and part-time employees, entered the payroll information into SEMA4, and ensured the accuracy of employee data in SEMA4 and payroll expenditures in the MnSCU accounting system. Faculty and excluded administrators did not report hours worked on timesheets; rather, they only reported leave taken.

Anoka-Hennepin Technical College

The MnSCU system office hired a contractor to administer faculty individual retirement plans for all MnSCU institutions, including Anoka-Hennepin Technical 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.

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

The primary objective of our review of payroll expenditures was to address the following questions:

- Did the college's internal controls provide reasonable assurance that employees were paid in compliance with applicable compensation plans and management's authorization, and that payroll expenditures were accurately recorded in the accounting records?
- Did the college comply with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans?

To answer these questions, we interviewed college staff to obtain an understanding of the internal control structure over the processing of payroll and personnel transactions. We analyzed employee salaries, reviewed source documents for proper authorization, and recalculated amounts paid to ensure staff were compensated in compliance with union contracts and other compensation plans. Finally, we reviewed the computer system security clearances for staff who had the ability to update payroll and human resource data.

Conclusions

The college's internal controls provided reasonable assurance that employees were accurately paid in compliance with applicable compensation plans and management's authorization, and that payroll expenditures were accurately reported in the accounting records. For the items tested, the college complied with applicable finance-related legal provisions and related bargaining unit contracts and compensation plans. However, we noted, in Chapter 2, Finding 1, that the college assigned incompatible access to human resource and payroll functions to two users.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in MnSCU accounting. However, we noted in two instances that the college did not comply with MnSCU policies requiring bid solicitation through public notice for purchases expected to exceed $25,000. The college was aware of the requirement but chose to use alternate procedures in these two unique instances. We also noted, in Chapter 2, Finding 1, that the college did not adequately restrict access to the accounting system.

College faculty and staff incur various operating and administrative expenditures to facilitate the educational mission of the college. Our audit focused on expenditures for purchased and consultant services, utilities, supplies, equipment, and supplies purchased for resale. Expenditures in these areas for all funds totaled approximately $4.5 million in fiscal year 2000.

To purchase goods or services, college departments submitted a purchase requisition to the purchasing agent of the college. The purchasing agent obtained price quotes or bids for purchases under $25,000 and sealed bids for purchases exceeding $25,000. MnSCU policy requires the solicitation of sealed bids by public notice for purchases exceeding $25,000. The purchasing agent assured the availability of funds in the appropriate cost center by initiating a system encumbrance in the MnSCU Purchase Control System (PCS). Using PCS, the purchasing agent generated a purchase order and sent it to the vendor. After the college received the goods or services, the business office matched the invoice to the purchase order and the receiving documentation. The business office then processed the payments on the MnSCU accounting system.

MnSCU policies require that the institutions develop procedures for recording fixed assets over $2,000. The policy gives the institutions discretion to record items under $2,000. Anoka-Hennepin Technical College tracked equipment with a cost over $2,000 on MnSCU's equipment module. The college also maintained a database to track and safeguard its computer equipment costing less than $2,000. Near the end of fiscal year 2000, the various college departments counted their equipment inventory. The fixed asset coordinator then updated the inventory in the equipment module as a result of these inventory counts.

Anoka-Hennepin Technical College

Audit Objectives and Methodology

The primary objective of our review of administrative expenditures was to answer the following questions:

- Did the college's internal controls provide reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in the accounting records?

- Did the college comply with applicable legal provisions and MnSCU policies concerning procurement and disbursements?

To answer these questions, we interviewed college employees to gain an understanding of the procurement and disbursement process. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the college complied with applicable legal provisions concerning procurement and disbursements. In addition, we reviewed the college's process to record and track its fixed assets. Finally, we reviewed security access to determine who had the clearance to initiate encumbrances and payments in MnSCU accounting.

Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that assets were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in MnSCU accounting. However, we noted, in Chapter 2, Finding 1, that the college did not adequately restrict access to the accounting system. We also noted two instances where the college did not comply with MnSCU policies requiring bid solicitation through public notice for purchases expected to exceed $25,000. The college was aware of the requirement but chose to use alternate procedures in these two unique instances. In one case, the college acquired a truck for $25,498 without public notice. The college did ensure a competitive price by soliciting bids from local dealerships. In a second case, the college acquired surgical lab tables for $33,862. Instead of a formal public notice, the college requested all potential vendors to provide a bid offer.

Chapter 6. Bookstore Operations

Chapter Conclusions

Anoka-Hennepin Technical College needs to improve internal controls over bookstore financial activities. Bookstore revenue controls require an increased assurance that receipts were safeguarded, accurately recorded in the accounting records, and deposited in compliance with finance-related legal provisions. We recommended tracking sales by an individual salesperson, promptly depositing receipts, timely posting of accounting transactions, and an independent review of sales returns.

Bookstore disbursement controls provided reasonable assurance that expenses were for goods and services actually received and were made in compliance with applicable legal provisions and management's authorization. However, we noted that certain expenses recorded in the accounting system were not included in internally-prepared financial statements for college management. For the items tested, the college complied with the significant finance-related legal provisions over vendor procurements and payments.

Anoka-Hennepin Technical College's bookstore sells a variety of merchandise including textbooks, supplies, and apparel. The college employs a bookstore manager, a part-time employee, student workers, and temporary employees. For fiscal year 2000, the college had sales of nearly $557,000.

The college used a point-of-sale computer system called Data Pro to account for bookstore sales, receivables, and inventory. Employees entered cash, check, credit card, and other charge sales into Data Pro. At the end of the day, a bookstore employee summarized cash, check, and credit card sales on Data Pro and compared them to the receipts collected. The employee prepared deposit and data entry documents and forwarded the receipts and the documents to the tuition office. An employee in the tuition office compared the sales summary to the receipts collected and the deposit documentation. This employee also entered the revenue transaction into MnSCU accounting. An armored car service then brought the deposits to the bank.

The bookstore allowed students with authorized funding from third-party organizations to charge books and supplies at the bookstore. The bookstore also allowed charges by other departments within the college. Bookstore employees generated invoices, received receipts on account from third-party organizations, and posted the receipts to the accounts in Data Pro. Bookstore employees generated a report of receipts posted to Data Pro and compared it to the receipts collected. The process of preparing deposit information, reviewing the amounts posted, entering the transaction into the accounting system, and transporting the receipts to the bank was the same as the daily sales receipt process.

The bookstore manager purchased textbooks, supplies, and apparel for resale. Bookstore purchases were not subject to the same procedures as other administrative expenditures. The bookstore manager determined the supplies and apparel needs and contacted vendors for price information. The bookstore manager also used the course syllabi to determine the books needed for the following semester's courses. Generally, the bookstore manager ordered books related to regular classes before each semester, but ordered books and materials related to customized training on an ongoing basis. After the vendor delivered the goods to the bookstore, employees verified receipt of all items ordered and forwarded the receiving documentation to the business office. The accounts payable clerk matched the receiving documentation with the invoice and processed the payment.

Bookstore employees conducted a physical inventory count at the end of each fiscal year. The bookstore manager compared the results of the count to the inventory recorded in Data Pro. The college then adjusted the inventory and accounting records.

The college allocated, but did not charge, facilities expenses to the bookstore. Some of the expenses included in the allocation were electricity, heating, cooling, maintenance, and custodial services. The college based the allocation on the square footage occupied by the bookstore.

Audit Objectives and Methodology

The primary objective of our review of bookstore operations was to answer the following questions:

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

- Did the college's internal controls provide reasonable assurance that bookstore expenses were for goods and services actually received, and that transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

- Did the college comply with the significant finance-related legal provisions concerning bookstore deposits and vendor procurements and payments?

To answer these questions, we interviewed bookstore and business office staff to gain an understanding of bookstore operations and the processes completed by the various college staff. We reviewed the controls over bookstore revenues and expenses. We tested a sample of receipts to determine if the college deposited all collected receipts, accurately and timely recorded the receipts in the accounting system, and deposited the receipts in a timely manner. We also tested bookstore vendor payments to determine if the payments were for items actually received, the transactions were accurately recorded, and the transactions complied with finance-related legal provisions.

Conclusions

Anoka-Hennepin Technical College needs to improve internal controls over bookstore financial activities. Bookstore revenue controls require an increased assurance that receipts were safeguarded, accurately recorded in the accounting records, and deposited in compliance with finance-related legal provisions. We recommended tracking sales by an individual salesperson, promptly depositing receipts, timely posting of accounting transactions, and an independent review of sales returns.

Bookstore disbursement controls provided reasonable assurance that expenses were for goods and services actually received and were made in compliance with applicable legal provisions and management's authorization. However, we noted that certain expenses recorded in the accounting system were not included in internally-prepared financial statements prepared for college management. For the items tested, the college complied with the significant finance-related legal provisions over vendor procurements and payments.

5. Anoka-Hennepin Technical College's controls over bookstore activities require improvement.

Anoka-Hennepin Technical College's controls over bookstore revenues and expenses need improvement in several ways. We noted the following concerns:

- The college bookstore did not track transactions by user in its point-of-sales system, called Data Pro. The bookstore manager logged into Data Pro in the morning and all employees processed transactions under one user ID and used the same cash drawer. This makes accountability more difficult. Data Pro does have the ability to track transactions by a salesperson code, but the college did not use this feature.

- Bookstore receipts were not always promptly deposited and transactions not promptly recorded in the accounting system. We found three of eleven items tested that were deposited more than two days after the sales date. We found an additional four of the eleven test items that were recorded six or more days after the sales date. By not depositing receipts promptly, the college increases the risk of theft and loss. By not recording transactions promptly, the college increases the risk of errors.

- Also, no one independent of the bookstore reviewed return sales transactions. Bookstore employees processed return transactions when customers returned purchased items. Recently, the bookstore began documenting these transactions on a return form. However, no one outside of the bookstore reviewed the return forms or the total returns processed each day. Return transactions are sensitive transactions because they are a decrease to cash collections. The lack of an independent review increases the risk that amounts recorded as returns are inaccurate or inappropriate.

- Finally, internally-prepared financial statements used to assist management in assessing bookstore profitability differed from the accounting system. The accounting system showed expenses of $27,266 that were not included in the financial statements. These expenses were primarily for temporary employee services and duplicating packets for resale. In addition, the financial statements showed an allocated facilities expense of $6,769 for fiscal year 2000 that was not recorded in the accounting system.

Recommendations

- *Anoka-Hennepin Technical College should improve controls over bookstore activities by tracking sales transactions by specific user, promptly depositing receipts, timely recording sales in the accounting system, and having an independent person review return transactions.*

- *The college should ensure its internal bookstore financial statements include all expenses recorded in the accounting system. The college should work with the system office to determine the necessary accounting entry to record the allocated facilities expense.*

Chapter 7. Student Financial Aid

Chapter Conclusions

Anoka-Hennepin Technical College's fiscal year 2001 internal controls provided reasonable assurance that only eligible students received financial aid in the appropriate amounts. College 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. In addition, for the items tested, the college complied with applicable federal requirements over receiving federal funds.

Anoka-Hennepin Technical College participated in various student financial aid programs administered by the U.S. Department of Education and the State of Minnesota. Table 7-1 summarizes the federal program expenditures for fiscal year 2001.

Table 7-1
Federal Financial Aid Expenditures
Fiscal Year 2001

CFDA Number	Program	Total Expenditures
84.032	Federal Family Education Loans (FFEL)	$1,065,422
84.063	Federal Pell Grant	$713,498
84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)	$27,150
84.033	Federal Work-Study (FWS)	$16,600

Source: MnSCU accounting system through March 31, 2001.

To apply for financial aid, students completed an application for financial aid and submitted it to a federal central processing unit. The processor ran various edits and calculations against the data and sent the college processed data for its enrolled students. To increase the accuracy of application data, the college chose to verify certain application data for all students against outside sources such as tax returns and birth certificates. The college used a software system called SARA to package and award financial aid based on the processed data. Award data then interfaced into the accounts receivable module, where the system applied financial aid to outstanding charges. The system interfaced financial aid expenditures and tuition and fee revenue into MnSCU accounting.

Students generally received the Federal Pell Grant as the first source of assistance. All eligible students received Federal Pell Grant awards since the federal government provided funding for all eligible students. The student's enrollment level, cost of education, and expected family contribution were factors used to determine the award amount. The maximum Federal Pell Grant award for each student during the 2000-2001 award year was $3,300.

The Federal Family Education Loan (FFEL) Program includes subsidized and unsubsidized Stafford Loans. The student borrower applies for the loan from a private lender and the college certifies student eligibility. The federal government guarantees the loan in case of default or cancellation. For subsidized Stafford Loans, the federal government pays interest to the lender while the student attends school and during certain deferment periods. For unsubsidized Stafford Loans, interest accrues from the date of origination and is the responsibility of the borrower. The student's grade level and the amount previously borrowed determines the maximum FFEL amount for each student.

The Federal Work Study (FWS) Program and Federal Supplemental Educational Opportunity Grant (FSEOG) are additional sources of federal financial aid. The federal government funds 75 percent of the total expenditures in the FSEOG and FWS programs. The state contributes the remaining 25 percent of the program funding.

Anoka-Hennepin Technical College also participated in the Minnesota State Grant Program and the Minnesota State Work Study Program funded by the Minnesota Higher Education Services Office (MnHESO). The college packaged Minnesota State Grants with federal financial aid. MnHESO established eligibility requirements for the programs and funded eligible disbursements.

Audit Objectives and Methodology

The primary objective of our review of financial aid was to answer the following questions:

- Did the college's internal controls over packaging and awarding of federal financial aid in fiscal year 2001 provide reasonable assurance that only eligible students received aid in the appropriate amounts?

- Did the college's internal controls in fiscal year 2001 provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system and administered in accordance with applicable federal regulations?

- For items tested in fiscal year 2001, did the college comply with applicable federal requirements over receiving federal funds?

To answer these questions, we interviewed employees from the financial aid and business offices to determine the process used to package, award, and disburse financial aid. We reviewed the process of anticipating cash needs and drawing federal funds. We also 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.

Anoka-Hennepin Technical College

Conclusions

Anoka-Hennepin Technical College's fiscal year 2001 internal controls provided reasonable assurance that only eligible students received aid in the appropriate amounts. College 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. In addition, for the items tested in fiscal year 2001, the college complied with applicable federal requirements over receiving federal funds.

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Status of Prior Audit Issues
As of June 4, 2001

Most Recent Audits

College Audit

Legislative Audit Report 98-55, issued in September 1998, covered the period July 1, 1995, through June 30, 1997. The audit covered the college's material activities, including tuition and fees, payroll, supplies and equipment, student financial aid, and the bookstore. The report contained 13 findings of which 11 have been fully resolved. One finding discussed weak security controls over MnSCU and SCUPPS access. We discuss similar issues in Finding 1 of this report. A second issue reported that the college did not separate key control responsibilities for bookstore revenue. The college took steps to implement the recommendation by having the tuition accountant review sales reports and enter the transactions into MnSCU accounting. However, controls could be further improved by having someone independent of the bookstore review return transactions. See current Finding 5 in Chapter 6.

Statewide/Single 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 for the year ended June 30, 2000. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Anoka-Hennepin Technical 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 for the year ended June 30, 1999. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to Anoka-Hennepin Technical 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. Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU 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. The process covers all colleges and universities within the MnSCU system.

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Anoka-Hennepin Technical College

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September 28, 2001

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

Dear Mr. Nobles:

Anoka-Hennepin Technical College welcomed the opportunity to work with staff from the Office of the Legislative Auditor throughout the course of our recently completed audit. Our discussions with your staff and the findings delineated in the audit report provided us with valuable information as we improve our business practices.

The College submits the following response to the findings.

1. The College did not adequately restrict certain employees access to its computerized systems.

We agree with this finding and will address it as follows:

The College has removed entry access to SCUPPS appointments for employees with access to SEMA4 payroll.

The Vice President of Finance, Accounting Officer Sr., and Accounting Officer have access to forced encumbrance, payments, and bank reconciliation. Only the Accounting Officer does bank reconciliations. We will remove her ability to process payments. We will review the access of the VP of Finance and the Accounting Officer Sr. to determine if forced encumbrance access can be removed without impacting other processes which must be available to these positions.

We are reviewing access to cashiering and A/R screens and will remove staff who do not need access. With third party billing now in place, only waivers for parking fees and employee tuition waivers occur on a regular basis. The Tuition Waiver report will be submitted to the VP of Finance, VP of Academic and Student Affairs, H/R, and Registrar monthly for review.

Responsible person: Vice President of Finance

Timeline: January 1, 2002

2. Anoka-Hennepin Technical College did not adequately monitor and control daily cashier transactions and tuition waivers.

We agree with the finding. While we are concerned with the cost/benefit of these controls, we will establish the following: All users of the cashiering and A/R functions will use individual logon Ids and a cash drawer will be assigned to each user.

Daily closeout of cash drawers will be segregated so employees do not tie-out the drawer they used. The Accounting Officer Sr. will review the deposits and daily activity reports as part of his work tracking bank activity.

With third party billing now in place, only waivers for parking fees and employee tuition waivers occur on a regular basis. The Tuition Waiver report will be submitted to the VP of Finance, VP of Academic and Student Affairs, H/R, and Registrar monthly for review**.**

Responsible person: Vice President of Finance
Accounting Officer Sr.
Accounting Technician – Tuition
Account Clerk – Tuition

Timeline: December 1, 2001

3. The College did not process employee tuition waivers according to MnSCU's established procedure.

We agree that MnSCU procedures must be followed and we are processing employee tuition waivers according to current MnSCU procedures. As an additional safeguard, the Tuition Waiver report will be submitted to the VP of Finance, VP of Academic and Student Affairs, H/R, and Registrar monthly for review**.** We also note that additional guidance from the Office of the Chancellor's Human Resource and Finance divisions will help us develop more accountable and efficient processes for tuition waivers.

Responsible person: Vice President of Finance
Accounting Technician – Tuition
Account Clerk – Tuition

Timeline: November 1, 2001

4. Anoka-Hennepin Technical College did not have an adequate process to monitor and follow-up on outstanding receivables for contract customized training.

The Tuition Office and Customized Training Office currently maintain a file of unpaid invoices. Statements will be sent on a term basis for any outstanding invoices.

Responsible person: Vice President of Finance
CTS Business Manager
Accounting Officer Sr.
Accounting Technician - Tuition

Account Clerk – Tuition

Timeline: December 1, 2001

5. Anoka-Hennepin Technical College's controls over bookstore activities require improvement.

The Bookstore has moved to tracking activity by salesperson. A RFP is being written for a new POS system for the Bookstore. We will review bookstore operations to ensure: timely deposit of receipts, review of merchandise returns, and accounting entries. The year-end financial statement will be reviewed to ensure all booked and unbooked expenses are included.

Responsible person: Vice President of Finance
Bookstore Manager
Bookstore Clerk

Timeline: May 1, 2002

The Legislative Auditor's findings provide AHTC with the opportunity to examine our existing business practices. In the spirit of continuous improvement, we not only must address these findings, but establish more effective operating procedures in our finance and administration areas. We will ask the Office of the Chancellor's Internal Audit Division to work with us to develop processes based on best practices in governmental accounting and college/university business office operations.

Sincerely,

/s/ Anne Weyandt

Anne Weyandt
President

c: John Asmussen
Laura King
Tom Silvers