

Financial-Related Audit

Century College
July 1, 1998, through June 30, 2001



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.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. James H. McCormick, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Dr. Lawrence Litecky, President
Century College

We have audited Century College for the period July 1, 1998, through June 30, 2001. Our audit scope included: financial management, tuition and fees, employee payroll, administrative expenditures, and bookstore operations. We highlight the audit objectives and conclusions in the individual chapters of this report.

We conducted our audit in accordance with *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 Century College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The 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 Century College, and 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 August 15, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 7, 2002

Report Signed On: August 9, 2002

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Financial Management	5
Chapter 3. Tuition and Fees	7
Chapter 4. Employee Payroll	11
Chapter 5. Administrative Expenditures	13
Chapter 6. Bookstore Operations	15
Status of Prior Audit Issues	17
Agency Response	19

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Poliseno, CPA, CISA, CFE	Audit Manager
Tony Toscano	Auditor-in-Charge
April Snyder	Auditor
Ching-Huei Chen	Auditor
Rob Litchke	Auditor

Exit Conference

We discussed the results of the audit with the following staff at an exit conference on August 1, 2002:

Office of the Chancellor:

Laura King	Vice Chancellor/Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Paul Portz	Internal Audit Coordinator

Century College:

Larry Litecky	President
Scott Erickson	Chief Financial Officer
David Piechowski	Business Manager

Report Summary

Overall Audit Conclusion:

Century College made significant improvements in its financial management practices since our last audit. The college implemented recommendations relating to all 12 findings included in our 1999 report. Century College's budgetary controls provided reasonable assurance that it operated within available resources. Except as noted below, the college's internal controls provided reasonable assurance that assets were safeguarded, and financial activities were properly recorded in the accounting system and complied with applicable legal provisions.

Key Finding and Recommendation:

- Century College did not properly document and review bookstore voided receipt transactions. To help ensure that errors and irregularities are detected, the college should require that all voids be properly documented and independently reviewed by an appropriate supervisor. (Finding 1, page 16)

<p>Century 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 operations for the period July 1, 1998, through June 30, 2001. The college's response is included in the report.</p>
--

This page intentionally left blank.

Chapter 1. Introduction

On January 1, 1996, Northeast Metro Technical College merged with Lakewood Community College to form Century Community and Technical College (Century College). The two-year college's mission is to provide quality lifelong educational opportunities for a diverse citizenry. Dr. Lawrence Litecky was appointed president effective March 21, 2000.

The college offers a wide array of educational opportunities to its students, including liberal arts and science programs as well as over 60 technical and career programs. The college also provides noncredit continuing education and customized training programs. For fiscal year 2001, the full-year equivalent student population at the college was 4,825.

Century College is affiliated with the Century College Foundation, a separate, nonprofit organization. The foundation provides student scholarships and other financial support to the college. The college has a formal signed contract with the foundation that outlines the duties and responsibilities of both parties. The foundation received staffing and other administrative support from the college. In return, the foundation provided student scholarships and grants that benefited the educational mission of the college. For fiscal year 2001, the college provided \$138,336 worth of services to the foundation and received \$341,738 from the foundation.

This page intentionally left blank.

Chapter 2. Financial Management

Chapter Conclusions

Century College operated within available resources and complied with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that its financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with applicable finance-related legal provisions regarding local bank accounts. In addition, we found the college established an appropriate operating relationship with its foundation.

Century College used the MnSCU accounting system to record its financial activity and to initiate transactions. The MnSCU accounting system interfaces with the state's accounting system to generate warrants from the state treasury. The Office of the Chancellor also requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury. Century College administers certain funds, such as agency accounts and enterprise activities, in a local bank account. The main bank account served as the state depository for transfer of funds into the state treasury. The college used the MnSCU Integrated Statewide Record System for all of its student registration processes.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The Office of the Chancellor allocates appropriated funds to Century College and all other MnSCU campuses based on an allocation formula. Century College, like all other MnSCU institutions, retains its tuition and other dedicated revenues to arrive at total available resources. Once the college determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. College management also monitors projected versus actual student enrollment to ensure that it would receive sufficient tuition to support the spending level.

Audit Objectives and Methodology

Our review of Century Community College's financial management focused on the following objectives:

- 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 it had properly recorded financial activities on the MnSCU and the state's accounting systems?

Century College

- Did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college's internal controls provide reasonable assurance that it had an appropriate operating relationship with related organizations?

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 administration of security privileges to determine whether the college adequately restricted access to its computerized business systems. Finally, we reviewed the college's relationship with its foundation.

Conclusions

Century College operated within available resources and complied with applicable legal provisions and management's authorization. The college's internal controls provided reasonable assurance that its financial activities were adequately safeguarded, accurately recorded in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with applicable finance-related legal provisions regarding local bank accounts. In addition, we found the college established an appropriate operating relationship with its foundation.

Chapter 3. Tuition and Fees

Chapter Conclusions

Century College's internal controls provided reasonable assurance that tuition and fee collections were adequately safeguarded and accurately reported in the accounting records, and that they complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning tuition.

Credit-Based Tuition and Fee Revenue

During fiscal year 1999, Century College began using the Integrated Statewide Records System (ISRS) for registration, fee assessment, and accounts receivable functions. The college also recorded tuition refunds on the system. Students paid their tuition and fees at the cashier windows in the business office. Each morning, the head cashier reconciled the previous day's receipts to an ISRS report, prepared the deposit, and entered the receipts into MnSCU accounting. A courier delivered the deposit to the bank each day.

The college has made significant improvements since our audit of fiscal years 1996 through 1998, where we found one week to two-month delays in depositing and posting the receipts to MnSCU accounting. For the items tested in fiscal years 1999 through 2001, the college promptly deposited and recorded the tuition and fee revenue.

Century College charged students varying tuition rates depending on their place of residence. Table 3-1 shows the tuition rates for resident and non-resident students during our audit period.

Table 3-1
Resident and Non-resident Tuition Rates
Fiscal Years 1999 - 2001

<u>Fiscal Year</u>	<u>Resident Rate</u>	<u>Non-resident Rate</u>
1999	\$66.20	\$132.40
2000	69.35	138.70
2001	72.80	145.60

Note: Tuition rates shown as per credit hour.

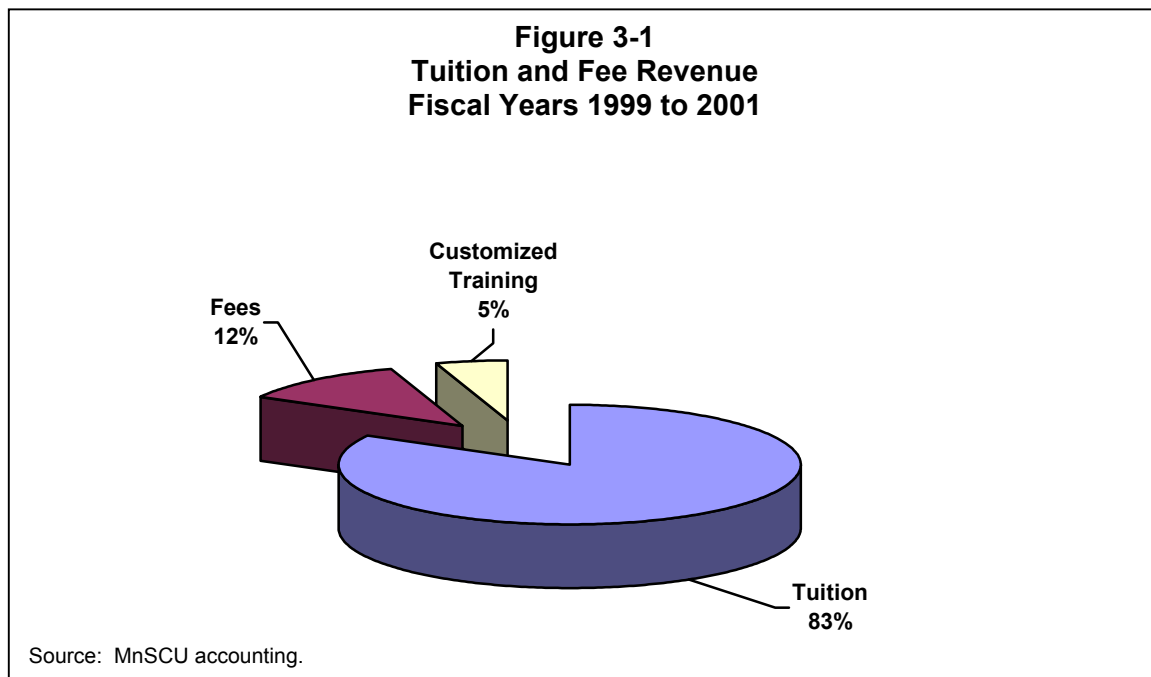
Source: Century College Tuition Rate Schedule.

Century College

Customized Training

In addition to credit-based tuition revenue, the college collected revenue from customized training, including continuing education courses and contract training courses. The college offered continuing education courses to the general public, while it developed contract training courses to meet the educational needs of a specific business or industry. The college used the ACEware system to maintain continuing education and customized training records until fiscal year 1999 when it switched to ISRS.

Figure 3-1 shows the breakdown of the major tuition and fee types collected for fiscal years 1999, 2000, and 2001.



Audit Objectives and Methodology

Our review of the college's tuition and fee revenues focused on the following questions:

- Did the college's internal controls provide reasonable assurance that it adequately safeguarded and accurately recorded revenue collections in the accounting records, and that it complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning tuition and fees?

To answer these questions, we interviewed college staff to gain an understanding of the controls over billing, collecting, depositing, and recording tuition, fees, and customized training revenue.

Century College

We reviewed student registrations, accounts receivable records, and MnSCU accounting records to determine if the college charged students appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on MnSCU accounting. We also reviewed bank deposit documentation and reconciliations to determine if Century College properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions.

Conclusions

Century College's internal controls provided reasonable assurance that tuition and fee collections were adequately safeguarded and accurately reported in the accounting records, and that they complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with significant finance-related legal provisions concerning tuition.

This page intentionally left blank.

Chapter 4. Employee Payroll

Chapter Conclusions

Century College's internal controls provided reasonable assurance that it properly authorized and accurately reported employee payroll expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with significant legal provisions and bargaining unit agreements.

Payroll represents the college's largest expenditure category, totaling approximately \$23.6 million, \$24.1 million, and \$26.9 million for fiscal years 1999, 2000, and 2001, respectively. The college employees belong to various bargaining units and compensation plans, including:

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

During our audit period, the college used the State's Employee Management System (SEMA4) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. The payroll section processed biweekly payroll transactions on the state's payroll system (SEMA4). The payroll system interfaces with the State College and Universities Payroll and Personnel Systems (SCUPPS), that provided employment history, pay rates, and bargaining contract details for all college employees. The human resources section entered all personnel changes and new employee records onto SCUPPS.

Audit Objectives and Methodology

Our review of payroll focused on the following questions:

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

Century College

To answer these questions, we made inquiries of the college's staff to gain an understanding of the payroll and personnel processes. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documentation to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions.

Conclusions

Century College's internal controls provided reasonable assurance that it properly authorized and accurately reported employee payroll expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization. For the items tested, the college complied, in all material respects, with significant legal provisions and bargaining unit agreements.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Century College's internal controls provided reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization. For the items tested, Century College complied, in all material respects, with significant finance-related legal provisions concerning administrative expenditures.

In addition to payroll expenditures, Century College also incurred various costs to facilitate the college's educational mission. Our audit focused on expenditures for supplies, utilities, and purchased and contractual services as shown in Table 5-1.

Table 5-1
Selected Administrative Expenditures
Fiscal Years 1999 to 2001

<u>Description</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Supplies	\$2,319,763	\$1,993,247	\$3,414,128
Contract Services	1,660,347	1,525,027	1,241,664
Purchased Services	1,032,885	1,246,806	1,612,831
Utilities	<u>629,548</u>	<u>702,992</u>	<u>852,657</u>
Total	<u>\$5,642,543</u>	<u>\$5,468,072</u>	<u>\$7,121,280</u>

Source: MnSCU accounting.

To purchase goods or services, authorized staff from the various college departments enter a requisition in the MnSCU Purchase Control System. The requisition, which encumbers the funds, must be approved by the appropriate department head or an individual delegated such authority. The department then forwards the requisition to the college's purchasing agent. The purchasing agent solicits bids, if necessary, prepares the purchase order, and places the order with the vendor. Goods are accepted at the college's centralized receiving dock and delivered to the staff member who requested the purchase. The employee verifies the accuracy of the shipment and authorizes the business office to pay the vendor. The accounts payable clerk matches invoices to the respective purchase order and receiving reports before processing the payment.

Century College

Audit Objective, Scope, and Methodology

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

- Did the college's internal controls provide reasonable assurance that it accurately recorded administrative expenditures in the accounting records, adequately safeguarded its assets, and complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal requirements concerning administrative expenditures?

To address these questions, we interviewed college staff to gain an understanding of the internal controls over the procurement and disbursement processes. We also performed analytical reviews and tested transactions to determine if the college properly authorized, processed, and recorded the transactions in MnSCU accounting. We also reviewed expenditures to determine if the college complied with MnSCU purchasing policies and other material finance-related legal provisions.

Conclusions

Century College's internal controls provided reasonable assurance that it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization. For the items tested, Century College complied, in all material respects, with significant finance-related legal provisions concerning administrative expenditures.

Chapter 6. Bookstore Operations

Chapter Conclusions

Except for the following issue, Century College's internal controls provided reasonable assurance that it accurately recorded bookstore revenue collections and expense transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, the bookstore staff did not adequately document voided transactions. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore operations.

Century College operates one bookstore that sells textbooks, supplies, clothing, and other miscellaneous items to its students. The college prepares annual financial schedules for its bookstore operations. In fiscal year 2001, the bookstore revenues totaled approximately \$2,425,000 and expenses totaled approximately \$2,252,000. The college periodically calculates indirect costs for the bookstore, but its policy is to waive those charges.

The bookstore manager supervises three full-time staff and three part-time staff. The bookstore processes sales through a point-of-sale cash register system. Students have the option of paying by check, cash, credit card, or charges to financial aid. At the end of each day, the cashier closes out the cash register and secures the receipts in a safe. The next morning, a bookstore employee reconciles the cash collected to the sales recorded on the register tape and prepares the deposit. A courier picks up and deposits the receipts daily. Receipt information is also forwarded to the business office and recorded on MnSCU accounting.

Audit Objectives and Methodology

We focused our review of bookstore financial activity on the following objectives:

- Did the college's internal controls provide reasonable assurance that it accurately recorded bookstore revenue collections and expense transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore operations?

To answer these questions, we interviewed college staff to gain an understanding of the bookstore operations. We performed analytical reviews and tested transactions to determine if the college properly documented and accurately recorded transactions on the MnSCU accounting system. Finally, we reviewed financial reports showing the financial results of the bookstore operations.

Century College

Conclusions

Except for the following issue, Century College's internal controls provided reasonable assurance that it accurately recorded bookstore revenue collections and expense transactions in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, the bookstore staff did not adequately document voided transactions, as discussed in Finding 1. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore operations.

1. Century College did not adequately control voided transactions for its bookstore.

The college did not consistently document or approve voided transactions for its bookstore operations. We tested voided transactions recorded on seven days and found one or more exceptions on five of those days. The bookstore staff did not provide supporting documentation, such as a void slip for the voided transactions, or they did not properly authorize the transactions. The undocumented transactions we identified ranged from \$2.25 to \$153.71. Voided transactions represent sensitive transactions because they decrease cash collections. The lack of documentation and independent review of these transactions increases the risk that voided transactions could conceal a theft of funds.

Recommendation

- *The bookstore should properly document and approve all voided transactions.*

Status of Prior Audit Issues As of June 7, 2002

Most Recent Audits

College Audit

Legislative Audit Report 99-30, issued in 1999, covered the period July 1, 1995, through June 30, 1998. The report reviewed material activities and programs, including tuition, fees and customized training receipts, employee payroll, administrative expenditures, student financial aid, and bookstore operations. The audit report cited 12 audit findings. The college implemented recommendations related to all 12 findings.

Statewide Audits

Legislative Audit Reports 01-15 and 00-11, issued in March 2001 and March 2000, respectively, examined MnSCU's activities and programs material to the State of Minnesota's general purpose financial statements and the Single Audit for the years ended June 30, 2000 and 1999, respectively. These reports did not include any findings related specifically to Century College.

Other Audit Coverage

The Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU general purpose financial statements and to report on its internal controls and compliance for its major federal programs. The Office of the Chancellor received an unqualified audit opinion on its financial statements for fiscal year 2001. As a part of the audit, the firm issued a management letter to MnSCU's Board of Trustees. The letter contained 13 comments on accounting, administrative, and operating matters. The comments did not specifically mention Century College.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) system to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved.

This page intentionally left blank.

Century College

Office of the President

Lawrence P. Litecky, Ph.D.
President

August 8, 2002

Mr. James R. Nobles
Legislative Auditor
100 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155

651-779-3342 – Office
651-779-3470 – FAX
Llitecky@cctc.cc.mn.us

3300 Century Avenue North
White Bear Lake, MN 55110

Dear Mr. Nobles:

Thank you for the opportunity to respond to the legislative audit report of Century College for the period from July 1, 1998 through June 30, 2001. Our formal written response to the audit finding is enclosed.

We are pleased with the audit process. I want to take this opportunity to particularly thank Claudia Gudvangen, Deputy Legislative Auditor, David Polisen, Audit Manager, Tony Toscano, Auditor-In-Charge and team members, April Snyder, Ching-Huei Chen and Rob Litchke for the professionalism and courtesy displayed by all of them throughout the audit.

We are committed to quality improvement. I believe the audit process has enhanced our efforts to improve our methods of conducting business.

Please feel free to respond to any of our comments and/or plans should you have questions.

Sincerely,

/s/ Larry Litecky

Dr. Larry Litecky
President

Enclosures

Century College
Response to Legislative Audit Findings

Finding 1: Century College did not adequately control voided transactions for its Bookstore.

Century College will consistently document and approve voided transactions for its Bookstore operation.

Person Responsible: Karen Larson, Bookstore Manager

Projected Completion Date: July 1, 2002