OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Normandale Community College

July 1, 1999, through June 30, 2001

AUGUST 29, 2002 **02-56**

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).

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

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Dr. Thomas Horak, President
Normandale Community College

We have audited selected areas of Normandale Community College for the period July 1, 1999, through June 30, 2001. Our audit scope included: financial management, tuition, fees, payroll, operating expenditures, and the bookstore activities. Our audit scope did not include student financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. The audit objectives and conclusions are highlighted 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 Normandale Community 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 Normandale Community College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 29, 2002.

/s/ James R. Nobles | */s/ Claudia J. Gudvangen*

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 5, 2002

Report Signed On: August 26, 2002

Room 140, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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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
Joan Haskin, CPA, CISA	Auditor-in-Charge
John Hakes, CPA	Auditor
Dave Massaglia	Auditor
Sheila Sun	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Normandale Community College and the MnSCU Office of the Chancellor at an exit conference held on August 14, 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
Margaret Jenniges	Director, Financial Reporting
Tracey Gran	Internal Audit Coordinator
Normandale Community College:	
Thomas Horak	President
Bernardine Bryant	Vice President, Administrative Services
Craig Erickson	Fiscal Services Director

Report Summary

Normandale Community College's budgetary controls provided reasonable assurance that it operated within available resources. The college timely completed state treasury and bank account reconciliations to ensure that financial activities were accurately recorded in the accounting records. The college's internal controls provided reasonable assurance that financial activities complied with applicable legal provisions and management's authorization.

Key Findings and Recommendations

- The college did not always promptly deposit bookstore and tuition receipts during peak collection periods. We noted bookstore deposit delays ranging from three to four business days, and tuition deposit delays ranging from two to three business days. The college should deposit receipts totaling $250 or more on a daily basis. (Finding 1, page 7)

- We noted a large number of college staff that could initiate registration cancellations, and there was no review of the extent to which registration cancellation transactions were backdated. These transactions are needed for dropped and cancelled courses, and they are backdated prior to the drop/add date to eliminate a student charge. To provide appropriate oversight, the business office should produce and review a periodic report quantifying the amount cancelled since these transactions reduce tuition revenue. (Finding 2, page 11)

- The college did not reconcile the state's payroll system (SEMA4) transactions to the college's human resources and accounting system (SCUPPS), and it did not generate and review certain management control reports comparing the two systems. (Finding3, page 15)

- The college bookstore did not have a control to review or approve voided transactions. We suggested an independent employee be assigned responsibility for review and approval of these sensitive, high risk transactions. (Finding 4, page 21)

Background

Normandale Community College, established in 1968, is part of the Minnesota State Colleges and Universities (MnSCU). The college annually serves approximately 10,000 students, making it among the state's largest two-year colleges. Dr. Thomas Horak has served as the college president since 1991.

Normandale Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This audit report focused on financial management, tuition and fees, payroll, operating expenditures, and the bookstore for the period July 1, 1999, through June 30, 2001. The college's response is included in the report.

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Chapter 1. Introduction

Normandale Community College, established in 1968, is part of the Minnesota State Colleges and Universities (MnSCU) system and is located in Bloomington, Minnesota. The college annually serves approximately 10,000 students, making it among the state's largest two-year college. Dr. Thomas Horak has served as the college president since 1991.

The college offers Associate in Arts, Associate in Science, and Associate in Applied Science degrees to its students in more than 40 academic departments and programs. It provides students with a wide array of educational opportunities, including the arts, sciences, business, computers, nursing, and specific career-related academic programs, such as dental hygiene and law enforcement. The college provides an educational base for students pursuing a bachelor's degree at a four-year college or university. The completion of the 'Minnesota Transfer Curriculum' as part of the college's Associate in Arts degree ensures courses transfer and equates to the first two years at a state university.

The college also provides noncredit continuing education and customized training programs. For example, Normandale's Business and Professional Advancement Center offers courses and workshops on a noncredit basis for people who want to develop career and workplace skills.

Normandale Community College finances its operations primarily from state appropriations and student tuition and fees. During fiscal year 2001, the college generated about $14.7 million in tuition and fee revenues, and obtained state appropriations of $13.6 million. The college's financial activities for the fiscal year ended June 30, 2001, are reported in the MnSCU General Purpose Financial Statements and Supplemental Schedules. The financial statements received an unqualified opinion from an independent auditor.

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Chapter 2. Financial Management

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. State treasury and bank account reconciliations to the accounting system were completed timely to ensure accuracy of balances. However, we found that the college did not always promptly deposit bookstore and tuition receipts.

For the items tested, the college complied with applicable collateral requirements for its local bank accounts. The college also had an appropriate operating relationship with its foundation.

MnSCU receives appropriations from the state's General Fund for a large share of its operational funding. The MnSCU Office of the Chancellor allocates appropriated funds to Normandale Community College, and other colleges and universities, based on an allocation formula. The college retains the tuition and other receipts it collects to arrive at its total spending authority.

Once the college determines its authorized spending level, it allocates spending budgets to the various administrative and academic cost centers. Monthly financial reports are available to cost center managers. College management and cost center managers use the reports to assess the financial status of their areas of responsibility.

The college uses the MnSCU accounting system to initiate and record financial transactions for state treasury activities and for 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, or MAPS) through an automated interface. The state's accounting system generates state treasury warrants for state-appropriated activities. Similarly, the state's payroll system (State Employment Management System, or SEMA4) is used to generate warrants initiated by the State Colleges and Universities Personnel/Payroll System (SCUPPS).

The college administers certain funds, such as financial aid and enterprise activities, in local bank accounts. College bank account reconciliations to the accounting system are necessary to ensure the accuracy of bank and accounting balances. The college also has the responsibility to ensure that it secures deposits held in the college's bank accounts against loss. Minnesota statutes require that bank balances not exceed 90 percent of the market value of the bank's pledged collateral.

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Each month, the business office reconciles the MnSCU accounting system to MAPS and the local bank account activity. The college did not timely perform state treasury and bank reconciliations, which was a prior audit concern that continued for four months during fiscal year 2001 and required the write-off of a minor difference in February 2001. However, since March 2001, the college monthly reconciled the account.

The college is affiliated with the Normandale Community 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 benefit the educational mission of the college. The foundation's fiscal year 2001 financial statements show that it awarded $134,847 in scholarships and grants.

Audit Objectives and Methodology

Our review of the college's overall financial management focused on the following objectives:

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

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the financial areas included in our audit scope. We also gained an understanding of the management controls, such as budget monitoring and state treasury and bank account reconciliations. 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 bank activity to determine compliance with material finance-related legal provisions, such as collateral sufficiency, and obtained foundation contracts and audited financial statements. Controls over state grant revenues were also reviewed on a limited basis. Finally, we reviewed security privileges to determine whether the college monitored employee access to its computerized business systems.

Conclusions

Normandale Community College's internal controls provided reasonable assurance that it operated within available resources, safeguarded its assets, and accurately recorded its financial activities in the accounting system. State treasury and bank account reconciliations to the accounting system were timely completed to ensure accuracy of balances. However, we found that the college did not always promptly deposit bookstore and tuition receipts.

For the items tested, the college complied with applicable collateral requirements for its local bank accounts. The college also had an appropriate operating relationship with its foundation.

1. PRIOR FINDING NOT RESOLVED: The college did not always promptly deposit bookstore and tuition receipts.

We found continued delays in the depositing of bookstore and tuition receipts. Typically these delays occurred during the peak collection period of each academic semester. The large volume of activity during this time resulted in a more laborious daily reconciliation process. We noted the following exceptions:

- Seven of fifteen bookstore deposits tested included delays that ranged from three to four business days. For example, one January 2000 deposit totaling $82,627 and a January 2002 deposit totaling $57,341 were held for three days.

- Four of fifteen tuition deposits tested included delays that ranged from two to three business days. For example, one March 2000 deposit totaling $79,605 was held for three days.

To adequately safeguard receipts, deposits should be promptly made. Minnesota Statute Section 16A.275 requires that receipts exceeding $250 be deposited on a daily basis.

Recommendation

- *The college should deposit receipts totaling $250 or more on a daily basis.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

The college's internal controls provided reasonable assurance that tuition and fee revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we found that tuition receipts were not always promptly deposited as discussed in Chapter 2, Finding 1. We also noted a substantial number of employees had ability to enter backdated registration transactions creating the need for management reports quantifying the extent of drops and cancellations that were posted. These reports will aid management decisions regarding the drop and cancellation period allowed without assessing a tuition charge. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees.

Students pay their tuition and fees at the business office cashier window. Cashiers entered collections into the system, which automatically applied the money against the outstanding tuition and fees, and other charges, in a specified priority order. As part of the daily closeout process, a system report was printed summarizing the day's collections and postings. The report was used to balance the cash register moneys to the transactions posted to MnSCU accounting. A courier delivered the deposits to the bank.

During fiscal year 2001, the college earned annual tuition, fees, continuing education, and customized training revenue of approximately $14.7 million. The resident tuition rate was $74.75, and the non-resident rate was $149.50 per semester credit plus fees. The college used the MnSCU Integrated Student Records System (ISRS) accounts receivable module to register, bill, and collect tuition. Figure 3-1 shows a breakdown of the revenue for fiscal year 2001.

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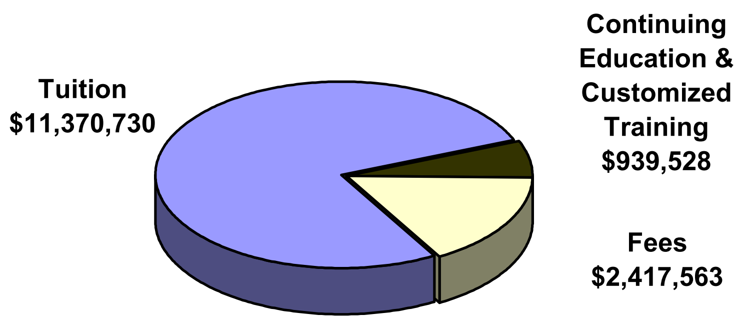
Figure 3-1
Tuition Revenues
Fiscal Year 2001



Source: MnSCU accounting for fiscal year 2001.

College employees have a number of responsibilities related to accounts receivable, including pursuing collection of delinquent accounts, placing holds on student registrations and transcripts if tuition has not been paid, and reporting accounts receivable information to internal and external parties. As of March 27, 2002, the college had a total accounts receivable balance of $1,961,176 in its General Fund. The college converted to the accounts receivable module of ISRS in March 1999. At the time of the conversion to ISRS, the college updated old system outstanding student balances into the new accounts receivable module. However, some of these old balances remain uncollected and the probability of collection is unlikely. The college developed a query to age its accounts receivable balances and will be working with the MnSCU Office of the Chancellor, who is establishing a systemwide write-off policy, for removing accounts receivable deemed uncollectible.

Audit Objectives and Methodology

The primary objectives of our review of tuition and fees were as follows:

- Did college internal controls provide reasonable assurance that tuition and fee revenue collections were safeguarded, accurately reported 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 tuition?

To answer these questions, we interviewed college employees to gain an understanding of the internal controls over tuition and fee revenue. We examined tuition rate tables, security access privileges, and cash session close out procedures. We also reviewed accounting records and supporting documentation to determine if the college properly collected and recorded revenue transactions in the accounting system, made daily deposits when required, authorized student tuition waivers, and complied with waiver provisions in the employee bargaining agreements. Finally, we reviewed how the college monitored and pursued collection of unpaid accounts receivables.

Conclusions

The college's internal controls provided reasonable assurance that tuition and fee revenue collections were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. However, we found that tuition receipts were not always promptly deposited as discussed in Chapter 2, Finding 1. We also noted a substantial number of employees had ability to enter backdated registration transactions creating the need for management reports quantifying the extent of drops and cancellations that were posted. These reports will aid management decisions regarding the drop and cancellation period allowed without assessing a tuition charge. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees.

2. The college did not monitor the extent of backdated registration cancellation transactions.

The college has a significant number of employees who have been given security clearance to enter backdated registration cancellation transactions. In addition, college management is not provided information quantifying the extent of these transactions. While some cancellations are expected each academic term, periodic system queries or reports quantifying cancellation levels will assist management decisions regarding the drop and cancellation period where tuition is not being assessed.

The computerized accounts receivable application allows users to eliminate a student's tuition and fee charges by backdating registration cancellation records. We noted that 39 college employees had access to the registration module in the accounting system and had the ability to enter backdated registration cancellation transactions. During our audit period, the college backdated a total of 13,088 credit cancellations, with an estimated value of over $1.1 million based on the college's resident tuition rates and fees. These transactions included "drops" received on time but entered late, course set up errors where students had to be cancelled and reregistered, and drop/add situations where a student essentially traded courses. However, the system does not distinguish cancellation types, which are only identified on the originating paper documents. We tested a sample of transactions and found the necessary documentation and management authorization.

MnSCU Policy 5.8 (Refunds, Withdrawals, and Waivers) allows institutional discretion when canceling tuition charges. For example, a student is allowed to drop a class, without obligation, if done prior to the institution's established "drop date." At any time, system users can backdate a student's drop date. In essence, these transactions eliminate the student's obligation to pay tuition and reduce the amount earned by the institution. These transactions should be documented and specifically authorized by management, along with a periodic measurement.

Recommendation

- *The college should periodically provide management with reports showing the amount of backdated registration cancellations.*

Chapter 4. Employee Payroll Expenditures

Chapter Conclusions

Normandale Community College's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. However, the college did not reconcile the state's payroll system to SCUPPS, and it did not generate and review certain management control reports comparing the two systems. For the items tested, the college complied with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans.

Payroll expenditures were the college's largest expenditure category, totaling over $22 million in fiscal years 2000 and 2001. College employees belonged to various compensation plans:

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

The college maintained separate human resources and payroll offices to handle personnel and payroll transactions. The college used the state's payroll system, State Employee Management System (SEMA4), and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll and human resources transactions. Salary and payrate history is maintained in SCUPPS and is used to manage and monitor compensation paid to faculty and staff. SCUPPS assignment codes identify different types of instructional and non-instructional assignments for faculty appointments. Human resources staff input personnel transactions and monitor faculty leave. SCUPPS interfaces into SEMA4 to generate paychecks or direct deposits to college employees.

Table 4-1 shows the annual payroll and fringe benefit costs for fiscal years 2000 and 2001.

Table 4-1
Payroll and Fringe Benefit Expenditures
Fiscal Years 2000 to 2001

	2000	2001
Employee Salaries	$17,789,747	$18,014,775
Fringe Benefits	4,075,384	4,300,976
Total	$21,865,131	$22,315,751

Source: MnSCU accounting for fiscal years 2000 and 2001.

During the current audit, we noted that actual academic credits taught by faculty did not always agree with instructional credit assignments reported in SCUPPS. Minor differences in credits resulted from varying course load requirements and other non-instructional responsibilities that were not separately identified in SCUPPS. Ideally, non-instructional responsibilities should be segregated into a different assignment type designated for such things as department chair, curriculum development, and research. This will allow college management to use the SCUPPS information system to better scrutinize non-instructional spending.

Our prior audit noted that the college did not fund payroll clearing accounts in a timely manner. The college is required to transfer funds from the local accounts to the state treasury for payroll costs of activities maintained outside the state treasury, such as the college bookstore. During the current audit, the college funded the clearing account on a monthly basis but the account continued to have a negative balance. However, since October 2001, the college has funded the payroll clearing account on a biweekly basis.

Audit Objective and Methodology

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

- Did the college's controls provide reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records?

- Did the college comply with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans?

To address these questions, we obtained an understanding of the internal control structure over the personnel and payroll process. We reviewed system security privileges and procedures used to process and reconcile payroll transactions. We analyzed employee annual compensation, tested SCUPPS appointments for management's authorization, compared paid hours worked and leave taken to time sheets for classified employees, and tested payrate increases for management's authorization and compliance with bargaining unit agreements. We also examined faculty and administrator leave balances maintained by the college. Finally, we reviewed the funding of payroll clearing accounts.

Conclusions

The college's internal controls provided reasonable assurance that employees were accurately compensated in compliance with applicable legal provisions and management's authorization, and that payroll expenditures were accurately reported in the accounting records. However, the college did not reconcile the state's payroll system to SCUPPS and it did not generate and review certain management control reports comparing the two systems. For the items tested, the college complied with the significant finance-related legal provisions contained in employee bargaining unit agreements and compensation plans.

3. PRIOR FINDING PARTIALLY RESOLVED: The college did not reconcile the state's payroll system to SCUPPS nor review certain management control reports.

The college did not compare payroll costs recorded in the state's payroll system to SCUPPS and did not review certain management control reports. A reconciliation of the two systems will assure balances are in sync and allow the college to isolate possible timing differences. Review of management control reports will aid in identifying payment errors, and provide information on differences between projected payroll obligations and encumbrances available to pay those obligations through fiscal year end.

Recommendation

- *The college should reconcile the state's payroll system to SCUPPS and review key management control reports comparing the two systems.*

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Chapter 5. Administrative Expenditures

Chapter Conclusions

The college's internal controls provided reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services received, and transactions were accurately recorded and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with significant finance-related legal provisions concerning procurement and disbursements.

The college incurred operating costs for purchased services, consultant and contract services, supplies, supplies for resale, utilities, and equipment totaling $5.56 million in fiscal year 2001. To make a purchase, staff completed either a paper or electronic requisition form that was subsequently authorized by the appropriate college dean or staff. The requisition was forwarded to the college's purchasing agent. The purchasing agent solicited bids, if necessary, prepared the purchase order, and placed the order with the vendor. Goods were accepted at the college's centralized receiving dock and delivered to the staff member who requested the purchase. The employee verified the accuracy of the shipment and authorized the business office to make the vendor payment. The accounts payable clerk matched invoices to the applicable purchase order and received evidence before processing the payment.

Our audit focused on expenditures for purchased and consultant services, utilities, supplies, supplies for resale, and equipment. Expenditures in each of these areas for fiscal years 2000 and 2001 are shown in Table 5-1.

Table 5-1
Selected Operating Expenditures
Fiscal Years 2000 and 2001

Expenditure Category	2000	2001
Purchased Services	$1,344,462	$1,323,616
Consultant/Contract Services	1,341,313	1,404,043
Utilities	670,426	634,286
Supplies	1,134,836	994,116
Supplies for Resale	532,184	604,991
Equipment	663,225	599,908
Total	$5,686,446	$5,560,960

Source: MnSCU accounting system for fiscal years 2000 and 2001.

The college tracks all fixed assets valued at over $2,000, with a useful life of more than two years, on the MnSCU fixed asset system. College policies also require recording of sensitive assets under $2,000. The college last conducted a physical inventory during fiscal year 2001.

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In the prior audit, we noted that the college paid vendor invoices without evidence assuring the receipt of goods. Packing slips, or other similar documentation, typically accompany the delivery of goods or materials. When packing slips are not available, a signed and dated acknowledgement on the purchase order by campus staff provides similar assurance. Currently, although controls improved in the area, we found that some expenditures tested did not contain the actual date of receipt of goods. Instead the invoice date was used which closely, but not precisely, represents the date of liability.

Audit Objective and Methodology

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

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

- 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 tested administrative expenditures to determine whether the college properly authorized, processed, and recorded the expenditure in the accounting system and equipment inventory system, when necessary. Expenditures were also tested to determine if the college complied with applicable legal provisions concerning procurement and disbursements. Finally, we reviewed security privileges to determine whether the college adequately restricted access to its accounting system.

Conclusions

The college's internal controls provided reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services received, and transactions were accurately recorded and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with significant finance-related legal provisions concerning procurement and disbursements.

Chapter 6. Bookstore

Chapter Conclusions

The college's internal controls provided reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that bookstore receipts were not always promptly deposited as discussed in Chapter 2, Finding 1. In addition, the college did not review or approve cash register transactions voided by bookstore cashiers. Cash register voids are sensitive and high-risk transactions that should be reviewed and approved by an independent employee. For the items tested, the college complied with the significant finance-related policies and legal provisions concerning bookstore operations.

The college operates a bookstore that sells course materials and textbooks, supplies, clothing, and other miscellaneous items to its students. Revenues from sales of these items totaled approximately $2.9 million in fiscal year 2001 and $2.6 million in fiscal year 2000.

The bookstore manager supervises five full-time employees. The bookstore records sales through a point-of-sale cash register system. Students have the option of paying by check, cash, credit card, or financial aid. At the end of each day, the cashier closes out the cash register and secures the receipts in a safe. Another bookstore employee reconciles the cash collected to the point-of-sale system and prepares the deposit. The bookstore delivers the receipts to the college's business office where a courier service picks up and delivers the receipts to the bank. Daily receipt information is also forwarded to the business office, reconciled, and recorded on MnSCU accounting.

The college bookstore staff initiate purchase requisitions for textbooks and supplies for resale. Purchases and disbursements are processed through the college business office in the manner described in Chapter 5. The bookstore manager approves payments, which are charged against the bookstore account.

Our prior audit noted that bookstore expenses did not include all operating costs, such as rent, utilities, and indirect costs for accounting and payroll services. The college has calculated these allocated indirect costs for fiscal years 2000 and 2001. Beginning in fiscal year 2001, allocated indirect costs for the college's enterprise fund were included in MnSCU's Comprehensive Annual Financial Report.

Table 6-1 summarizes the bookstore income statement activities for fiscal year 2001.

Table 6-1
Bookstore Income Statement
Fiscal Year 2001

Revenue:	
Sales	$2,950,556
Other Income	57,187
Total Revenue	$3,007,743
Expenses:	
Cost of Goods Sold	$2,195,622
Salaries and Fringe Benefits	233,557
Operating Expenses	180,463
Indirect Cost Allocation	82,952
Total Expenses	$2,692,594
Net Income (Loss)	$ 315,149

Source: Prepared by Normandale accounting staff.

Audit Objectives and Methodology

Our review of the bookstore financial activities focused on the following questions:

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

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

- Did the college comply with the significant finance-related legal provisions and policies concerning bookstore operations?

To answer these questions, we interviewed campus bookstore and business office employees to gain an understanding of the internal controls in place over bookstore revenues and expenses. We performed analytical reviews and tested transactions to determine if the college properly documented and accurately recorded bookstore transactions in the MnSCU accounting system. Receipts were also tested for completeness and timely deposit. Additional procurement and payment authorization tests were performed on expenses. Finally, we reviewed the bookstore financial statements and college allocation of indirect costs to the bookstore.

Conclusions

The college's internal controls provided reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization. However, we found that bookstore receipts were not always promptly deposited as discussed in Chapter 2, Finding 1. In addition, the college did not review or approve cash register transactions voided by bookstore cashiers. Cash register voids are sensitive and high-risk transactions that should be reviewed and approved by an independent employee. For the items tested, the college complied with the significant finance-related policies and legal provisions concerning bookstore operations.

4. The college does not perform an independent review of receipt transactions voided by bookstore cashiers.

Bookstore cashiers void receipt transactions without a review and approval of the bookstore manager or other staff independent of collections. While voided transactions appear on daily reports, no one reviewed these high-risk transactions. For example, we found voided transactions totaling $696 for sales on August 22, 2000, that were not approved. Additional voids tested for the months of January and February 2002, ranging from $4 to $215, also had no evidence of review or approval. Voided transactions are sensitive transactions because they represent decreases to cash collections. The absence of independent review of these transactions increases the risk that amounts recorded as voids were inaccurate or inappropriate.

Recommendation

- *The college should improve bookstore collection controls by having an independent employee review and approve voided transactions.*

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Status of Prior Audit Issues
As of June 2002

Most Recent Audit

<u>Legislative Audit Report 00-35</u>, issued in August 2000, covered the college's material activities and programs, including general financial management, tuition and fees, employee payroll, selected expenditure areas, and bookstore operations. The prior report contained eleven findings, seven of which were resolved. One finding related to federal student financial aid was not included in the current audit's scope. We have repeated portions of two prior findings in the current audit as Findings 1 and 3 of this report.

Other Audit Coverage

The MnSCU Office of the Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU's general-purpose financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received an unqualified opinion 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. While the comments did not specifically mention Normandale Community College, certain matters involving segregation of duties are concerns at Normandale Community College and are included in our report as Finding 4.

State of Minnesota Audit Follow-Up Process

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

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Normandale
community college
9700 France Avenue South
Bloomington, MN 55431

August 21, 2001

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the Normandale Community College audit report for the period July 1, 1999 through June 30, 2001. The college staff has reviewed the audit findings and recommendations and has responded to those recommendations in this letter.

Finding #1:

The college did not always promptly deposit bookstore and tuition receipts.

Recommendation

The college should deposit receipts totaling $250 or more on a daily basis.

College response
We concur with this finding. The college will negotiate with the courier service to switch from an early morning pickup to an afternoon pickup to allow for timely daily reconciliation.

The college has assigned a bookstore employee and established a procedure to complete a daily sales report and deliver it to the accounting office on a daily basis.

Responsible staff: Karen Hernandez, Bookstore Manager
Lori Lien, Accounting Officer Intermediate
Craig Erickson, Fiscal Director

Date projected for completion: October 1, 2002

<u>Finding #2:</u>

The college did not monitor the extent of back-dated registration cancellation transactions.

Recommendation:

The college should periodically provide management with reports showing the amount of back-dated registration cancellations.

<u>College response</u>
We concur with this finding. The college will provide quarterly reports to management.

Responsible staff: Derek Guiher, Accounting Officer
Craig Erickson, Fiscal Director

Date projected for implementation: Quarterly reports will commence October 10, 2002.

<u>Finding #3:</u>

The college did not reconcile the state's payroll system to SCUPPS nor review certain management control reports.

Recommendation:

The college should reconcile the state's payroll system to SCUPPS and review key management control reports comparing the two systems.

<u>College response</u>
We concur with this finding. The college will reconcile the state's payroll system to SCUPPS and review key management control reports with Human Resources staff.

Responsible staff: Lorraine Sevcik, Payroll
Craig Erickson, Fiscal Director

Date projected for implementation: The college began this routine process in June 2002.

<u>Finding #4:</u>

The college does not perform an independent review of receipt transactions voided by bookstore cashiers.

Recommendation:

The college should improve bookstore collection controls by having an independent employee review and approve voided transactions.

<u>College response</u>
We concur with this finding. The college will consistently review and approve voided transactions for its bookstore operation.

Responsible staff: Karen Hernandez, Bookstore Manager

Projected completion date: April 2002

We want to thank the audit team for their courtesy and professionalism. We are committed to quality improvement. Please contact me or Vice President Bernardine Bryant, at 952-487-8159 should you have any questions regarding this response.

Sincerely,

/s/ Thomas Horak

Thomas Horak, Ed.D.
President