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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Anoka-Hennepin Technical College
July 1, 2000, through June 30, 2002

MAY 8, 2003 **03-24**

Financial Audit Division

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Ms. Anne Weyandt, President
Anoka-Hennepin Technical College

We have audited Anoka-Hennepin Technical College for the period July 1, 2000, through June 30, 2002. Our audit scope included: financial management, tuition and fees, employee payroll, administrative expenditures, and bookstore and food service operations. 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. 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 Anoka-Hennepin Technical 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 Anoka-Hennepin Technical 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 May 8, 2003.

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

End of Fieldwork: February 10, 2003

Report Signed On: May 6, 2003

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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
David Poliseno, CPA, CISA	Audit Manager
Pat Ryan	Team Leader
George Deden, CPA	Auditor
April Snyder	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of the Office of the Chancellor and Anoka-Hennepin Technical College at the exit conference held on April 23, 2003:

Office of the Chancellor:

Laura King	Vice Chancellor/Chief Financial Officer
Margaret Jenniges	Director of Financial Reporting
Denise Kirkeby	Supervisor of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Tracey Gran	Regional Auditor, Internal Auditing

Anoka-Hennepin Technical College:

Anne Weyandt	President
Wendy Meyer	Chief Financial Officer

Report Summary

Anoka-Hennepin Technical College operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that its 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.

Key Findings:

- Anoka-Hennepin Technical College did not adequately restrict certain employee access to its computerized information systems. (Finding 1, page 7)

- The college did not have an adequate process to monitor and follow-up on outstanding receivables for third-party, contract customized training, and bookstore financial activities. (Finding 2, page 8)

- The college inappropriately transferred funds to its foundation. (Finding 4, page 10)

- The college did not verify its daily bookstore and food service receipts to cashier records and subsequent deposits. Also, the bookstore did not properly document voided or sales return transactions. (Finding 6, page 23)

- Anoka-Hennepin Technical College did not prepare financial statements or business/finance plans in fiscal year 2002 for it bookstore and food service operations. (Finding 7, page 24)

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 and food service operations for the period July 1, 2000, through June 30, 2002. 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 1,600 full-year equivalent students with two-year degree and certificate programs in diverse areas such as construction electrician, surgical technology, aviation, practical nursing, information technology, and occupational therapy. 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 11^{th} and 12^{th} 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 serving as interim president beginning in May 2000.

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Chapter 2. Financial Management

Chapter Conclusions

Anoka-Hennepin Technical College operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that its 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 the college did not adequately segregate duties over its automated teller machine (ATM). We also noted that the college did not have an adequate process to monitor outstanding receivables. We found that the college inappropriately transferred funds to its foundation. We also noted that the college did not have a current contract with its foundation.

MnSCU receives appropriations from the state's General Fund for the majority of its operational funding. The Office of the Chancellor 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 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 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 (MAPS) 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.

To ensure the accuracy of its financial records during the audit period, the college performed reconciliations of cash balances to its local bank account's monthly statements. 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. In 1999, the two organizations entered into a three-year contract that established the responsibilities and expectations of each organization. This agreement expired on June 30, 2002, and a new contract had not been executed as explained in Finding 5. 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 provides scholarships and grants to students. The foundation prepares annual audited financial statements. According to the audit report, the Anoka-Hennepin Technical College Foundation had total public support and revenue of $706,465, total expenses of $633,804, and an ending net asset balance of $260,007 as of June 30, 2002.

Audit Objective 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 operated within available resources and complied with applicable legal provisions and management's authorization. The college completed reconciliations to ensure that its 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 Finding 2, we noted that the college did not have an adequate process to monitor outstanding receivables. The college did not adequately segregate duties over its automated teller machine (ATM), as discussed in Finding 3. The college inappropriately transferred funds to its foundation as discussed in Finding 4. We also noted that the college did not have a current contract with its foundation, as discussed in Finding 5.

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

Anoka-Hennepin Technical College did not adequately restrict certain computer security clearances to the MnSCU accounting system. The college has primary authority and responsibility to ensure access is necessary based on each employee's job responsibilities. This is the third audit report addressing computer security weaknesses at the college. Since our last audit, the college had corrected one of the three identified security weaknesses. We noted the following concerns:

- Five employees had the ability to enter a forced encumbrance and process payments. Having the ability to process encumbrances and payments results in an inadequate separation of duties between the purchasing and disbursing functions. In addition, two employees had the ability to process payments and reconcile the college bank account. 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 six users access to cashiering and accounts receivable functions. Five of these users had the ability to initiate non-cash waivers. Ideally, individuals who perform cashiering functions should not have access to adjust or waive accounts receivable records. Staff with access to cash should not have the ability to enter transactions that could potentially hide the misappropriation of cash.

- 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. Although cashiers generally did not enter employee tuition waivers, they had the ability to enter these and other waivers. 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. Further, the college did not develop reports to monitor tuition waiver transactions recorded in ISRS. Without a monitoring process, the college was unable to identify possible errors or irregularities.

- The college assigned generic user IDs for its two computerized cash registers in the tuition office. The college allowed the cashiers to use the generic user IDs instead of their own IDs to log on to the system and process tuition transactions and record them in the accounting system. This control weakness prevents the college from identifying the individual who processed specific transactions, if the college detects errors or unauthorized transactions. To ensure accountability for transactions entered into the accounting system, users should only use their assigned user IDs and passwords.

Recommendations

- *Anoka-Hennepin Technical College should limit access to its accounting system 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.*

- *The college should periodically review its security clearances to ensure that users only have the access needed to perform their job responsibilities.*

- *Anoka-Hennepin Technical College should produce and review waiver transaction reports for appropriateness.*

- *The college should not permit its cashiers to use generic user IDs to process tuition and other receipt transactions.*

2. PRIOR FINDING NOT RESOLVED: The college did not have an adequate process to monitor and follow-up on certain outstanding receivables.

The college did not have an adequate process to monitor and follow-up on outstanding receivables involving customized training, third-party billings, and bookstore charges. According to the December 31, 2002, quarterly accounts receivable report, the college reported gross receivables of $400,604 with and allowance for doubtful accounts of $101,764. Our audit disclosed the following weaknesses:

- The college did not adequately monitor and follow-up with third-party and customized training customers who did not pay for courses. We found the college properly invoiced its customers, but it did not consistently send subsequent statements or notices if the customer failed to pay. The lack of effective receivable monitoring and a timely follow-up process increases the likelihood of default. During fiscal year 2001, the college began using MnSCU's new third-party and customized training modules, but we found that no accounts receivable aging function was available to help the college identify delinquent accounts.

  Also, the college did not have a collection policy. The college did not submit any third-party or contract customized training accounts to the Department of Revenue for revenue recapture or to the Minnesota Collection Enterprise for collections. By not using these collection tools, the college increases the risk that it will not maximize revenue earned.

- The bookstore did not record all of its accounts receivable on MnSCU accounting. Rather, the bookstore used the DataPro software package to establish and monitor its accounts receivable. The bookstore collected payments on outstanding accounts and forwarded the payments along with the day's operating receipts to the tuition office. In addition to the receipts the tuition office received from the bookstore, it also directly received payments on outstanding accounts. The tuition office posted the transactions to MnSCU accounting. However, because the bookstore did not set up the receivable on MnSCU accounting, the tuition office could not post a payment to an outstanding receivable. As a result, the college does not know the correct bookstore accounts receivable balance. As of January 31, 2003, MnSCU accounting showed an accounts receivable balance of $17,483.

- Finally, the college has not written-off old uncollectible accounts. In January 2003, the Office of the Chancellor issued a draft policy to the campuses establishing procedures for writing-off certain accounts. The Office of the Chancellor developed reports to assist campuses in identifying the accounts to write-off. Since January 2003, several campuses have implemented this policy and have written-off uncollectible accounts. By not writing-off uncollectible accounts, the college's accounts receivable balance is overstated.

Recommendations

- *Anoka-Hennepin Technical College should identify, monitor, and follow-up on outstanding receivables for third-party, contract customized training, and bookstore past due accounts.*

- *The college needs to record all of its accounts receivable activity in MnSCU's accounting system. It also needs to determine the correct bookstore accounts receivable balance.*

- *The college should develop procedures to more actively pursue collection of past due accounts and write-off old outstanding accounts where repayment seems unlikely.*

3. The college did not establish adequate controls over its automated teller machine.

The college did not adequately segregate various operating duties over its automated teller machine (ATM). Prior to August 2002, the college had an agreement with a local bank to provide ATM service to the campus. However, the bank determined that the machine was no longer profitable, so they removed the machine. When the college could not find another bank to provide ATM services on campus, it purchased an ATM and entered into a service agreement with a processing company. The company processes the ATM transactions and reports the transactions to the applicable financial institutions. As part of the service agreement, the college keeps $1.35 from each $1.50 transaction fee charged to the user.

We reviewed the college's operating procedures over the ATM and found that one employee was responsible for monitoring the machine's cash balance, requesting and picking up money from the bank, replenishing the machine, and recording and reconciling surcharge and reimbursement payments from the processing company. Without an adequate segregation of duties over ATM operations, errors or irregularities could occur and not be detected.

Recommendation

- *Anoka-Hennepin Technical College should segregate the duties over the operation of its ATM, or develop detective controls that would provide an independent review of transactions related to the ATM.*

4. The college entered into a financial arrangement with its foundation without proper documentation or authorization.

The college provided $59,500 to its foundation for a fund raising consultant hired by the foundation. The total cost of the consultant's contract was $112,000. In June 2001, the foundation entered into a contract with a fund raising consultant to provide the foundation with assistance initiating a major gifts campaign. Because the foundation did not have adequate funding to cover the entire contract amount, the college's former chief financial officer (CFO) authorized the payment of a portion of the contract from college funds. The foundation's executive director told us that she considered the college's payment a loan and intended to repay it. However, as of February 2003, the foundation has not repaid any portion of the loan.

Although this financial arrangement appeared to be a loan, we found no evidence to support that arrangement. The foundation did not recognize the transaction as a loan on its financial statements. There was no written loan agreement between the college and the foundation outlining each party's rights and responsibilities, including a schedule for repayment of the loan and interest payments, if applicable. Also, the college directly paid the contractor and recorded the transactions in MnSCU accounting as other professional/technical services rather than a loan. The college also initially set up the transaction as a purchase of exactly $50,000. As a result, the college did not have to obtain approval from the Office of the Chancellor. However, it later paid an additional amount of $9,500 to the contractor. Further, the only college official to approve this transaction was the former CFO. It is unclear whether the CFO had the authority to issue loans on behalf of the college.

Recommendations

- *Anoka-Hennepin Technical College should properly document all financial arrangements and only spend funds in accordance with its legal authority.*

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- *Anoka-Hennepin Technical College should ensure that it receives an additional $59,500 in financial support from its foundation.*

5. The college did not have a written contract with its foundation for fiscal year 2003.

Anoka-Hennepin Technical College did not have a written contract with its foundation for fiscal year 2003. The college entered into a three-year contract with the Anoka-Hennepin Foundation in July 1999. The contract expired on June 30, 2002. As of February 2003, the college had not executed a new contract with its foundation. Written contracts establish the rights and responsibilities between the parties.

Recommendation

- *Anoka-Hennepin Technical College should execute a written contract with its foundation on an annual basis.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Generally, Anoka-Hennepin Technical College's internal controls provided reasonable assurance that tuition and fee collections were safeguarded and accurately reported in the accounting records, and that they complied with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Findings 1 and 2, the college did not sufficiently limit employees' access to the college's computerized business systems and did not adequately monitor outstanding receivables for third-party and contract customized training customers. In addition, the college did not adequately monitor and control tuition waivers as discussed in Chapter 2, Finding 1. For the items tested, the college complied with significant finance-related legal provisions concerning tuition and fees.

During our audit, the college initiated an investigation related to some improprieties involving customized training. At the time of our audit report, the college had not completed its investigation. When the college completes its investigation, we will review their results to determine if further action is warranted.

Credit-Based Tuition and Fee Revenue

Anoka-Hennepin Technical College collected approximately $5.9 million in tuition and fees during fiscal year 2002. The college used the 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, a college employee produces 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 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 2001 and 2002

Fiscal Year	Resident Rate	Non-resident Rate
2001	$73.00	$146.00
2002	$81.75	$163.50

Note: Tuition rates shown are per credit hour.

Source: Anoka-Hennepin Technical College's tuition rates.

Customized Training

In addition to credit-based tuition revenue, the college collected revenue for customized training, including continuing education and contract training courses. The college determined tuition rates or established contracts for customized training classes on an individual basis. 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. The college used Data Pro during the beginning of the audit period to track customized training courses, revenue, and receivables. The college began using the ISRS third-party and customized training module in fiscal year 2001.

Audit Objective 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 all tuition and fees were collected and safeguarded, properly reported in the accounting records, and in compliance 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 meet these objectives, we interviewed college employees to gain an understanding of the controls over tuition and fees. We assessed risks and performed analytical tests to identify possible unusual trends. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students appropriate tuition and fees, and whether the college properly recorded receipt transactions in MnSCU accounting. We also reviewed bank deposit documentation and reconciliations to determine if the college properly safeguarded and deposited all revenue collections in compliance with material finance-related legal provisions. Finally, we reviewed the college's procedures for monitoring and collecting outstanding accounts receivable balances.

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Conclusions

Generally, Anoka-Hennepin Technical College's internal controls provided reasonable assurance that tuition and fee collections were safeguarded and accurately reported in the accounting records, and that they complied with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Findings 1 and 2, the college did not sufficiently limit employees' access to the college's computerized business systems and did not adequately monitor outstanding receivables for third-party and contract customized training customers. In addition, the college did not adequately monitor and control tuition waivers as discussed in Chapter 2, finding 1. For the items tested, the college complied with significant finance-related legal provisions concerning tuition and fees.

During our audit, the college initiated an investigation related to some improprieties involving customized training. At the time of our audit report, the college had not completed its investigation. When the college completes its investigation, we will review their results to determine if further action is warranted.

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Chapter 4. Employee Payroll

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that it properly authorized and accurately reported employee payroll expenditures in the accounting records, and that payments complied with applicable legal provisions and management's authorization. For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans.

Employee payroll represents the college's largest expense. Anoka-Hennepin Technical College expended approximately $18.8 million in payroll-related costs during the audit period. The college employs about 240 full and part-time faculty and classified and unclassified staff positions. College employees belonged to the following compensation plans:

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

Anoka-Hennepin Technical College maintains its human resource and payroll functions at its campus, using MnSCU's and the State of Minnesota's centralized information systems. The payroll section processes biweekly payroll transactions on the state's payroll system (SEMA4). The payroll system interfaces with the State College and Universities Payroll and Personnel System (SCUPPS), which provides employment history, pay rates, and bargaining contract details for all college employees. The human resources section enters all personnel changes and new employee records onto SCUPPS.

During 2002, the college reorganized some of its centralized services. The college merged its payroll function into a larger unit, which included the human resources function. Prior to this reorganization, the payroll function reported to the financial management unit. Although the college merged the payroll and human resource functions organizationally, the college still ensured that the employees performing the work maintained an adequate separation of duties.

Audit Objectives and Methodology

Our review of Anoka-Hennepin Technical College's payroll expenditures focused on the following objectives:

- 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 provisions and management's authorization?

- For the items tested, did the college comply with material finance-related legal provisions and bargaining unit agreements?

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. We also reviewed severance payments to determine if the payments appeared reasonable and were accurately calculated.

Conclusions

Anoka-Hennepin Technical 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 with material finance-related legal provisions and compensation plans.

Chapter 5. Administrative Expenditures

Chapter Conclusions

Anoka-Hennepin Technical 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 authorizations. However, as noted in Chapter 2, Finding 1, the college did not adequately restrict certain computer security clearances. For the items tested, the college complied with significant finance-related legal provisions.

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 $4.6 million in fiscal year 2002. Table 5-1 shows a breakdown of each these expenditures.

Table 5-1
Selected Administrative Expenditures
Fiscal Years 2001 and 2002

Description	2001	2002
Consultant/Contract Services	$1,269,847	$ 746,130
Supplies	996,658	1,237,662
Purchased Services	924,209	1,313,165
Supplies for Resale	780,997	678,241
Utilities	550,922	404,117
Equipment	318,442	259,006
Total	$4,841,075	$4,638,321

Source: MnSCU Accounting.

To purchase goods or services, college departments submitted a purchase requisition to the purchasing agent of the college. MnSCU policy established dollar thresholds that required specific procurement action on the part of the purchasing agent, including bid solicitation. 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.

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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 conducted a physical inventory of fixed assets in 2000. Due to the major construction projects on campus, the college has delayed conducting a complete physical inventory until the summer of 2003 when the construction is complete.

Audit Objective 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 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, did the college comply, in all material respects, with significant finance-related legal provisions concerning administrative expenditures?

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 and if it complied with applicable finance-related legal provisions concerning administrative expenditures. 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 it adequately safeguarded its assets, accurately recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. However, as noted in Chapter 2, Finding 1, the college did not adequately restrict certain computer security clearances. For the items tested, the college complied with significant finance-related legal provisions.

Chapter 6. Enterprise Fund Activities

Chapter Conclusions

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that bookstore and food service revenues were properly collected, adequately safeguarded, and accurately recorded in the accounting records, and that they complied with applicable legal provisions and management's authorization. However, the college did not adequately separate the duties over bookstore and food service receipts.

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that it accurately recorded bookstore and food service expenses in the accounting records and complied with applicable legal provisions and management's authorization. However, the college did not prepare financial statements for the bookstore and food service operations for fiscal year 2002 or develop business/finance plans.

For the items tested, the college complied with the significant finance-related legal provisions concerning bookstore and food service operations.

Anoka-Hennepin Technical College accounts for several activities within its Enterprise Activity Fund, including bookstore and food service operations. The college should account for these activities in a manner similar to a private business. The college allocated, but did not charge, facility expenses such as electricity, heating, cooling, maintenance, and custodial services to the bookstore and food service. The college based the allocation on the square footage occupied by the bookstore and the food service. As explained in Finding 7, the college did not prepare financial statements for its bookstore and food service operations for fiscal year 2002.

Bookstore Operations

Anoka-Hennepin Technical College's bookstore sells a variety of merchandise, including textbooks, supplies, and apparel. The college employs only a bookstore manager. For fiscal year 2002, the college had sales of nearly $667,000.

The college used a point-of-sale computer system called Data Pro to account for bookstore sales, receivables, and inventory. The bookstore manager entered cash, check, charge, and credit card sales into Data Pro. At the end of the day, the manager summarized cash, check, and credit card sales on Data Pro. The next day, the manager compared the Data Pro report to the receipts collected and forwarded the deposit, data entry documents, and receipts 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. The bookstore manager generated invoices, while the tuition office received receipts on account from third-party organizations, and then the bookstore posted the receipts to the accounts in Data Pro.

The bookstore manager purchased textbooks, supplies, and apparel for resale. Bookstore purchases were not subject to the same procedures as 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, the bookstore manager 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.

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

Food Service Operations

The college began its food service operations in the fall of 2001, after previously contracting for this service with a private vendor. The food service manager and four full-time employees staff the operation. For fiscal year 2002, the food service had sales of $165,000.

The food service uses one cash register to collect sales in the form of cash or checks. At the end of the day, the food service manager reconciles the tape total to the cash on hand. The food service staff forward the receipts to the tuition office cashiers, who prepare the bank deposit and enter the amount in MnSCU accounting. The food service manager authorizes voids and refunds at the time of their occurrence.

Food service staff take an inventory of their goods every three months for operating control purposes only. The college does not use the inventory counts to calculate cost of goods sold.

Audit Objective and Methodology

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

- Did the college's internal controls provide reasonable assurance that bookstore and food service 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 and food service 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, in all material respects, with the significant finance-related legal provisions concerning bookstore and food service deposits and vendor procurements and payments?

To answer these questions, we interviewed bookstore, food service, and business office staff to gain an understanding of bookstore and food service operations. We tested a sample of receipt transactions to determine if the college accurately deposited and recorded the receipts in the accounting system. We also tested 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's internal controls provided reasonable assurance that bookstore and food service revenues were properly collected, adequately safeguarded, and accurately recorded in the accounting records, and that they complied with applicable legal provisions and management's authorization. However, the college did not adequately separate the duties over bookstore and food service receipts, as discussed in Finding 6.

Anoka-Hennepin Technical College's internal controls provided reasonable assurance that it accurately recorded bookstore and food service expenses in the accounting records and complied with applicable legal provisions and management's authorization. However, the college did not prepare financial statements for the bookstore and food service operations for fiscal year 2002 or develop business/finance plans, as discussed in Finding 7.

For the items tested, the college complied with the significant finance-related legal provisions concerning bookstore and food service operations.

6. PRIOR FINDING PARTIALLY RESOLVED: Anoka-Hennepin Technical College's controls over bookstore and food service operations need improvement.

Anoka-Hennepin Technical College's controls over bookstore and food service operations need improvement. The college did not verify its daily bookstore and food service receipts to cashier records and subsequent deposits. Bookstore and food service staff collected receipts from customers and rang them through the DataPro system and a cash register, respectively. The employees closed out the cash registers, prepared cash count sheets, and compared the amount of the receipts to the DataPro and cash register summary reports. The bookstore and food service staff then brought their respective receipts to the business office where the cashier deposited them with other receipts. The cashier compared the amount on the summary reports to cash count sheets, entered the amount into the accounting system, and deposited the receipts into the bank. However, the tuition cashier did not provide the bookstore or food service operations with documentation for the deposit amount posted to MnSCU accounting.

The bookstore did not properly document voided or sales return transactions. Except for rush periods, the bookstore manager is the only employee working in the store. The bookstore employee processed sales return transactions when customers returned purchased items or needed to void a previously entered transaction. In our last audit report, we recommended that an independent person review sales return transactions. However, during our current audit, we found that the bookstore manager no longer prepared the return forms. Return transactions are sensitive transactions because they are a decrease to cash collections. The lack of documentation and proper authorization increases the risk that amounts recorded as returns are inaccurate or inappropriate.

Recommendations

- *The business office should provide the bookstore and food service operations with documentation showing the deposits posted to MnSCU accounting.*

- *The college should require the bookstore manager to prepare sufficient documentation to support sales return and voided transactions and require someone independent of the bookstore to verify these transactions.*

7. Anoka-Hennepin Technical College did not comply with certain MnSCU procedures regarding reporting requirements for its bookstore and food service operations.

Anoka-Hennepin Technical College did not prepare financial statements or business/finance plans for fiscal year 2002. The bookstore manager prepared the financial statements for fiscal year 2001, but did not prepare them for fiscal year 2002. The college just started operating its own food service operations and has not prepared any financial statements for this activity. MnSCU Procedure 7.3.2, Part 5 requires colleges to prepare financial statements in accordance with generally accepted accounting principles for any auxiliary enterprise with an annual activity level in excess of $50,000. Preparing financial statements would provide the college with complete and accurate financial information necessary in measuring the financial performance of the enterprise activities.

The college did not include indirect costs in its fiscal year 2001 bookstore income statement. The college developed an indirect cost allocation plan that included the auxiliary enterprise activities, but it did not include these costs in its fiscal year 2001 bookstore income statement. MnSCU Procedure 7.3.4, Part 2 requires that, "For auxiliary and other service activities, … all [direct and indirect] costs must be calculated, accounted for in the accounting system, and included in program costs for purposes of financial reporting."

Finally, the college has not prepared the required multi-year business/finance plans, as required by MnSCU Procedure 7.3.2, Part 7. The policy states, "Colleges … are responsible for ensuring the programmatic and fiscal soundness of their auxiliary enterprises and maintaining a written multi-year finance/business plan."

Recommendations

- *The college should prepare financial statements for its auxiliary enterprise activities in accordance with MnSCU procedures.*

- *The college should maintain a written multi-year finance/business plan for its auxiliary enterprise activities.*

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Status of Prior Audit Issues
As of February 10, 2003

Most Recent Audits

College Audit

Legislative Audit Report 01-50, issued in October 2001, covered the period July 1, 1997, through June 30, 2000. 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 five findings of which one has been fully resolved. One finding discussed weak security controls over MnSCU accounting access. We discuss similar issues in Chapter 2, Finding 1 of this report. A second issue, not fully implemented, reported that the college did not separate cashiering and waiver entry functions or perform an independent review of waiver transactions. This issue is also discussed in Chapter 2, Finding 1. A third issue, regarding monitoring of outstanding receivable balances, is repeated in Chapter 2, Finding 2. We found that the college partially resolved a fourth finding regarding bookstore controls. Chapter 6, Finding 6 discusses this issue.

Other Audit Coverage

The MnSCU Office of Chancellor contracted with Deloitte and Touche, LLP, an independent CPA firm, to audit the MnSCU basic financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received unqualified opinions for fiscal years 2001 and 2002. As a part of the audit, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters. The fiscal year 2001 management letter contained 13 comments, and the fiscal year 2002 management letter contained 7 comments. The management letters did not specifically mention 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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May 1, 2003

Mr. David Poliseno, Audit Manager
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Poliseno:

Thank you for the opportunity to work with you and your staff from the Office of the Legislative Auditor. We're confident that the recently completed audit report will be very helpful in finalizing resolution of outstanding financial management issues as well as improving our business practices at Anoka-Hennepin Technical College. I do feel it necessary to add that during the period covered by this audit, the College made a change in staffing in the Chief Financial Officer position. Through the leadership of our new CFO, we have already begun to address many of the deficiencies found in this report, as well as previous ones, and are confident that all of the items will be resolved before mid-fiscal year 2004.

The College submits the following response to the findings:

1) Anoka-Hennepin Technical College did not adequately restrict certain employee access to its computerized information systems. (Page 7)

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

The College has reviewed the employee access records and has eliminated generic IDs to log on to the system. We have reviewed the employee access records and have cleared the incompatible security rights except for one cashier; we will be implementing detective controls in this situation.

A procedure will be implemented to review waiver transactions.

Responsible Person: Chief Financial Officer

Timeline: June 30, 2003

2) The college did not have an adequate process to monitor and follow-up on outstanding receivables for third-party, contract customized training, and bookstore financial activities. (Page 9)

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

The College has begun sending letters to all constituents stating that delinquent accounts will be turned over to the Department of Revenue for revenue recapture or to the Minnesota Collection Enterprise for collections. The Customized Training Services, Bookstore and third-party accounts will be fully integrated in the College central collections process and will be collected by the College business office.

The CFO is working on a college-wide collection and write-off policy, which will ensure centralized collection of account receivables. Bookstore receivables will be processed through ISRS to accurately reflect accounts receivable balances.

Responsible Person: Chief Financial Officer

Timeline: July 31, 2003

3) The college did not establish adequate controls over its automated teller machine. (Page 10)

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

The College administration is determining whether it will implement a plan to segregate the duties associated with the automated teller machine or simply dispose of the automated teller machine.

Responsible Person: Chief Financial Officer

Timeline: August 31, 2003

4) The college entered into a financial arrangement with its foundation without proper documentation or authorization. (Page 12)

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

The AHTC foundation has provided an additional $43,073.45 this fiscal year in scholarship dollars – dollars that directly affect College students. Based on that, as well as the expanded financial support that the foundation recently provided in equipment purchases totaling $30,000, the requisite additional financial support has been received. A letter will be sent to the foundation president stating that this financial arrangement and has been resolved and a similar situation cannot occur in the future.

Responsible Persons: Chief Financial Officer and Vice President for Institutional Advancement & Innovation

Timeline: Completed

5) The college did not have a written contract with its foundation for fiscal year 2003. (Page 12)

We agree with this finding and have addressed it as follows:

A written contract has been established and is effective until 6-30-04.

Responsible Person: Chief Financial Officer

Timeline: Completed

6) Anoka-Hennepin Technical College's controls over bookstore and food service operations need improvement. (Page 24)

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

The business office now provides the bookstore and food service operations receipt documentation directly from ISRS for verification purposes.

New forms will be used to monitor sales returns.

Management is currently reviewing staffing for improvement of the Bookstore operation.

Responsible Person: Chief Financial Officer

Timeline: July 31, 2003

7) Anoka-Hennepin Technical College did not comply with certain MnSCU board procedures regarding reporting requirements for its bookstore and food service operations. (Page 25)

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

Financial statements for the College bookstore and food service auxiliary enterprise activities will be provided in accordance with MnSCU Board Procedure 7.3.4, Part 2.

Finance/business plans for both the bookstore and food service auxiliary enterprise activities will be provided in accordance with MnSCU Board Procedure 7.3.2, Part 7.

Responsible Person: Chief Financial Officer

Timeline: Financial Statements – August 31, 2003; Business Plans – September 30, 2003

Please don't hesitate to call if you have any questions.

Sincerely,

/s/ Anne Weyandt

Anne Weyandt
President

c: John Asmussen
Laura King
Wendy Meyer