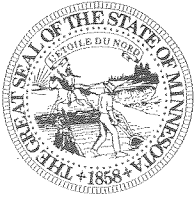


**COMMUNITY COLLEGE SYSTEM  
HIBBING COMMUNITY COLLEGE  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE YEAR ENDED JUNE 30, 1985**

**MAY 1986**

**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**





STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor  
Community College System

Members of the Community College Board

Dr. Philip J. Anderson, President  
Arrowhead Community College Region

Mr. Orville Olson, Provost  
Hibbing Community College

Audit Scope

We have completed a financial and compliance audit of Hibbing Community College (HCC) for the year ended June 30, 1985, except for those programs and activities further described in the Scope Limitations section of this letter. Section I provides a brief description of the college's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on March 28, 1986.

The objectives of the audit were to:

- study and evaluate major Hibbing Community College (HCC) internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements through the Statewide Accounting (SWA) System, and imprest cash;
- verify that financial transactions for state funded programs were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 136, Community College Board policies and procedures, and other finance-related laws and regulations;
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

The management of HCC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected

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Page 2

benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of HCC is also responsible for the college's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by HCC. The purpose of our testing of transactions was to obtain reasonable assurances that HCC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Scope Limitations

As explained in Section I of this report, major operating activities of Hibbing Community College are accounted for through the statewide accounting system. However, certain community college activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities.

The majority of our audit work was done on the HCC activities accounted for through the statewide accounting system. However, during the course of our audit, we also performed limited reviews and testing of a number of HCC All College Fund activities and other functions not accounted for on SWA. These included a review of the HCC emergency loan fund, the bookstore, the food service contract, the college's day care program, and the college's relationship with the HCC Foundation. Audit techniques used in these areas included, but were not limited to, auditor observation, interviews with college personnel, a review of procedures, and examination of documentation supporting selected transactions. The audit work done in these areas was not sufficient to determine whether recordings of financial transactions in manual ledgers for HCC All College Fund activities were proper.

We did not audit any federal programs, including student financial aid programs, for compliance with federal regulations. Student financial aid programs are a part of the HCC All College Fund. Student financial aid programs administered by HCC will be audited by a private CPA firm for fiscal year 1985.

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Page 3

Conclusions

In our opinion, except for the issues raised in Section II, Recommendations 1-8, and except for the federal programs which we did not audit as described in the Scope Limitations section of this letter, the HCC system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, for the year ended June 30, 1985, HCC administered its state funded programs in compliance, in all material respects, with applicable finance-related laws and regulations.


Compliance over federal programs administered by HCC was not evaluated by us, and accordingly, we do not express an opinion on college compliance with those programs.

In our opinion, for the year ended June 30, 1985, HCC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Recordings of financial transactions in manual ledgers for HCC All College Fund activities were not reviewed by us, and accordingly, we do not express an opinion on the proper recording of those transactions.

The recommendations included in this audit report are presented to assist the college in improving accounting procedures and controls. We will be monitoring and reviewing HCC progress on implementing these recommendations.

We would like to thank the Hibbing Community College staff for the cooperation extended to us during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

May 23, 1986



# HIBBING COMMUNITY COLLEGE

## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	6

## AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Steven D. Pyan	Auditor-in-Charge
Alan Finlayson	Staff Auditor
Sandra Linn	Staff Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Arrowhead Region, the Hibbing Community College and the Community College System at an exit conferences which was held on March 28, 1986:

Orville Olson, HCC Provost  
Myron Schmidt, HCC Vice-Provost  
Ron Blakesley, HCC Campus Services Director  
Terri Heino, HCC Account Clerk  
Duane Erickson, HCC Financial Aid Director  
William Maki, Arrowhead Region Director of College Services  
Glenn Wood, Community College System Accounting Manager





# HIBBING COMMUNITY COLLEGE

## I. INTRODUCTION

Hibbing Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Hibbing is part of the Arrowhead Community College Region which includes four other northern Minnesota community colleges who share a regional administration. Dr. Philip J. Anderson is the president of the Arrowhead Community College Region. Mr. Orville Olson is the provost of Hibbing Community College.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Major operating activities of the college are accounted for through the statewide accounting system. Minn. Stat. Chapter 136 exempts certain community college activities from Department of Finance budgetary control, including the use of SWA. The majority of these activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities. The All College Fund operates under policies and procedures established by the Board.

Hibbing Community College collected \$715,521 in tuition and \$91,536 in other receipts for a total of \$807,057 for fiscal year 1985. These represent 2.7 percent of total fiscal year 1985 community college system receipts. During fiscal year 1985, Hibbing Community College spent \$2,243,811 for general operations through the statewide accounting system. This includes \$1,657,995 in payroll and other personal service costs. Hibbing's general operating disbursements represent 2.5 percent of the systemwide general operations total of \$90,562,087 for the year.

The full-time equivalent student enrollment for the 1984-85 school year which was covered by this audit was as follows:

<u>Quarter</u>	<u>Head Count</u>	<u>Full-Time Equivalent</u>
Summer Session	79	25
Fall	966	665
Winter	907	623
Spring	926	573

## HIBBING COMMUNITY COLLEGE

### II. CURRENT FINDINGS AND RECOMMENDATIONS

#### Accounting controls over imprest cash need improvement.

Hibbing Community College (HCC) maintains an imprest cash fund for a variety of payments, including tuition refunds, travel and payroll advances, and purchases requiring advance payment, pursuant to applicable Department of Finance and Community College Board policies and procedures. The authorized amount of the fund was \$5,000 until April 1985, when it was increased to \$10,000. Payments from the fund are generally reimbursed through the Statewide Accounting (SWA) System. However, travel and payroll advances are repaid by the recipients who receive reimbursement directly through SWA.

The person requesting an imprest cash disbursement completes a requisition form which is approved by the provost and sent to the business office. The account clerk in the business office prepares the checks, posts to the accounting records, and prepares SWA reimbursement requests. The campus services director reviews and authorizes the reimbursement requests.

Internal control over the fund was weakened by three factors:

- reimbursement requests were not adequately verified;
- travel and payroll advances were not promptly repaid; and
- a cash shortage was not reported to the Department of Finance.

The SWA reimbursement request procedures require the account clerk to reconcile the balance in the fund to its authorized limit. Since the fund is not reimbursed for all disbursements, a nonreimbursable amount is included as a reconciling item. The nonreimbursable amount principally consists of travel and payroll advances which are due directly from the payee. Typically, the campus services director does not verify the propriety of this amount when approving the reimbursement request. Such a review is necessary to ensure that only authorized and properly supported expenditures are included.

Six travel advances, totalling \$709, were not repaid within 30 days of the last day of travel as required by Department of Finance policy, and two payroll advances, totalling \$490, were not repaid when the employees received their next payroll check as required by payroll operating procedures. Two of the travel advances were not repaid until four and five months after the travel occurred. The payroll advances were repaid in installments which created collection problems as one of the employees resigned before fully repaying the advance. Furthermore, at June 30, 1985 when \$50 of that advance was still outstanding, the account clerk deposited personal funds to balance the account. The clerk was later reimbursed by the former employee, however, that was not until nine months after the advance was issued. If Hibbing Community College had followed payroll operating procedure 07:04:19, which requires that the employees

## HIBBING COMMUNITY COLLEGE

payroll warrant be pulled and arrangements made for immediately reimbursing the imprest cash fund, they would have avoided the collection problems. Total advances from the imprest cash fund were \$4,066 during fiscal year 1985. Unless these advances are repaid promptly, the fund could experience cash flow problems.

When a prepaid order was not delivered and thus an invoice could not be submitted for reimbursement, a \$13 cash shortage in the imprest cash fund resulted. Rather than report the shortage to the Department of Finance, the account clerk deposited a personal check to cover the amount. Although the clerk was subsequently reimbursed, SWA operating procedure 06:06:09 and Community College Board procedures require that cash shortages be reported to the Department of Finance on the final reimbursement request of the fiscal year. It is necessary to comply with this policy so that cash shortages can be analyzed, and any corrective action may be taken.

Because imprest cash funds are subject to fewer centralized SWA controls, adequate review of imprest cash reimbursements and reconciliations is essential. This review should be done to assure that the required reports are accurate and the intermingling of state and personal funds is not allowed.

### *RECOMMENDATIONS:*

- 1. The review of the SWA reimbursement requests should include verification of nonreimbursable amounts included in the reconciliation of the cash balance to the authorized limit.*
- 2. Travel and payroll advances should be repaid to the imprest cash fund in accordance with applicable policies and procedures.*
- 3. Cash shortages should be reported to the Department of Finance in accordance with payroll operating procedure 06:06:09.*

### HCC needs to monitor the emergency loan program.

HCC operates, in conjunction with a local bank, an emergency loan program. Eligible students, with the approval of the financial aid director, may obtain loans up to \$200. A contract delineates the responsibilities of each party; the bank sets the terms of the loan, collects the interest in lieu of a fee, and provides HCC a monthly listing of the outstanding loans, while HCC guarantees the loans and must maintain a collateral savings account.

The contract limits the outstanding loan balance to 150 percent of the collateral savings account. The savings account balance was \$801.62 at March 31, 1986, however, we were unable to determine the number and total of outstanding loans as of that date. Neither HCC nor the local bank monitors the outstanding loan balance. Furthermore, HCC does not receive the required monthly list of outstanding loans, the total of which could be compared to the collateral savings account balance to ensure that the loan

## HIBBING COMMUNITY COLLEGE

balance limit has not been exceeded. Failure to comply with this requirement could result in a large liability for HCC in the event of a high default rate.

The bank notifies HCC when a loan is in default for more than 30 days, and withdraws the principal and interest from the collateral savings account. HCC does not reconcile default notices to withdrawals from the collateral savings account. Internal control would be improved if such a reconciliation was made to verify that all withdrawals were valid.

### *RECOMMENDATIONS:*

4. *HCC should request from the bank, a monthly list of outstanding loans. They should verify that the total loan balance does not exceed 150 percent of the collateral savings account, as required by the contract.*
5. *HCC should reconcile default notices to withdrawals from the collateral savings account.*

### Receipts are not deposited daily, as required by statute.

HCC collects money from various sources, such as tuition, fees, and events. Receipts are collected in the business office and recorded on a cash register. The account clerk removes the money from the cash register, reconciles it to the cash register tape, and prepares the deposit into the state depository bank. In fiscal year 1985, \$873,908 was deposited into the state treasury.

Three of twenty deposits reviewed were not handled in accordance with Minn. Stat. 16A.275 which requires daily depositing of receipts over \$250. In those cases, although receipts ranged up to \$962, the money was stored and deposited with the next day's receipts. Compliance is necessary to ensure the safekeeping of all funds and allow the optimal use of these funds by the state.

### *RECOMMENDATION:*

6. *Receipts exceeding \$250 should be deposited daily, in accordance with Minn. Stat. 16A.275.*

### Daycare payment vouchers need further review and revision.

Hibbing Community College provides a financial subsidy for students with children. The subsidy is in a form of payments to daycare providers who have delivered services which have allowed student-parents to attend class. The student is responsible for locating a licensed provider, who also must be approved by HCC. A student is allowed a maximum of 20 hours per credit for each child, with HCC contributing 75¢ per hour for services received. At the end of each school quarter, the provider submits a voucher form which details the hours by child with a calculation for total amount due. HCC spent \$5,880 during fiscal year 1985 on this program.

## HIBBING COMMUNITY COLLEGE

While HCC staff review the vouchers for clerical and arithmetical accuracy, a verification by the student-parent is not required. A student review would provide both a firsthand and an independent assurance of the claim's propriety, as well as giving added assurance that false claims have not been submitted. After such reviews are completed, the student should be required to sign the voucher. The signature would evidence that verification was done.

### *RECOMMENDATION:*

7. *HCC should require a verification of daycare vouchers by the applicable student and revise the form to allow an evidential signature.*

There is a lack of separation of duties over cash in the bookstore.

The bookstore at Hibbing Community College stocks and sells new textbooks, supplies, sundries, and gift items. Total fiscal year 1985 sales were \$124,000. There is one permanent employee, the manager, who is assisted by a part-time student worker. While the student worker and the manager both handle cash receipts, the manager is solely responsible for preparing the daily deposits, preparing the checks for payment of accounts, and monthly reconciling the bank statement.

Internal accounting control is weakened by allowing reconciliation of the bank account by a person who also receives cash and prepares deposits. The reconciliation of the bank statement, or at a minimum a review of it, by someone independent of the bookstore operation would increase the likelihood of detecting both intentional and unintentional errors.

### *RECOMMENDATION:*

8. *Someone independent of the bookstore operation should either reconcile the bookstore bank statement or review any reconciliations completed by bookstore staff.*



# Hibbing Community College

Arrowhead Region

1515 East 25th Street  
Hibbing, Minnesota 55746  
Telephone 218 - 262-6700

May 23, 1986

Ms. Jeanine Leifeld  
Audit Manager  
Office of the Legislative Auditor  
Veterans Service Building  
St. Paul, MN 55155

Dear Ms. Leifeld:

We, Hibbing Community College, agree with the findings and recommendations of the legislative audit team. The following is our response to the recommendations as outlined by the auditors.

Recommendation No. 1

Each imprest cash reimbursement request includes non-reimbursable items. A listing of all such items is attached to the working papers and reviewed by the Director of Campus Services upon signing the imprest cash request for reimbursement. This procedure was initiated immediately following the exit interview on March 28, 1986 by Ronald Blakesley.

Recommendation No. 2

All payroll warrants for those employees who have received a payroll advance will be pulled. Employee will be contacted and arrangements made with employee for repayment.

A ledger has been established by Ronald Blakesley to monitor payroll and travel advances, and to include: amount advanced, date advanced, amount collected, date collected. Names of those individuals who have not repaid their travel advances within 30 days will be submitted by Ronald Blakesley, Director of Campus Services, to Myron Schmidt, Vice Provost, for further action.

Recommendation No. 3

Cash shortages will be reported to the Department of Finance at year end in compliance with Community College Board policy on the final imprest cash reimbursement request. This action will be implemented by Ronald Blakesley, Director of Campus Services on June 30, 1986.

Recommendation No. 4

The Director of Financial Aids, Duane Erickson, and Security State Bank have reached an agreement to the following.

- A. The bank will send monthly statements indicating the status of each active account.
- B. The Director of Financial Aids and the bank will both monitor the total loan balance so it will not exceed 150% of the collateral savings account.

The above began on May 1, 1986.

Ms. Jeanine Leifeld  
Page Two

May 23, 1986

Recommendation #5

The Director of Financial Aids will reconcile default notices to withdrawals on the monthly bank statement, beginning with the first statement received on May 31, 1986. Duane Erickson will be responsible for the above action.

Recommendation #6

There will be a daily deposit prepared by the business office each day that receipts exceed \$250.00. The above action was begun on March 28. Ronald Blakesley, Director of Campus Services, will be responsible to see that Minnesota Statute 16A.275 is followed.

Recommendation #7

Hibbing Community College has revised the child care billing forms to include the student's signature. Beginning fall quarter 1986, no payments will be processed without verification by the student as to the hours listed by the facility. The student services office, under the supervision of Ronald Blakesley, shall be responsible for implementing this procedure.

Recommendation #8

To provide adequate internal accounting control of the Auxiliary accounts, the business office, under the supervision of Ronald Blakesley, Director of Campus Services, has begun reconciling the Auxiliary account bank statements on March 31, 1986.

We, at Hibbing Community College, wish to thank the audit team for the assistance given to us during the audit. Their suggestions and pointers will assist us in maintaining better internal control and provide us with a better managed operation.

We were very pleased with the professionalism of the audit team. Thank you.

Sincerely,



Orville A. Olson, Provost  
Hibbing Community College

Copy: Dr. Gerald Christenson, Chancellor, Community College System  
Dr. Philip Anderson, President, Arrowhead Community College Region