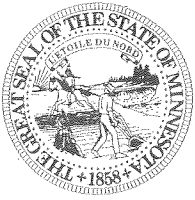


**COMMUNITY COLLEGE SYSTEM
VERMILION COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

JULY 1986

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

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

Mr. Jon M. Harris, Provost
Vermilion Community College

Audit Scope

We have completed a financial and compliance audit of Vermilion Community College (VCC) 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 April 3, 1986.

The objectives of the audit were to:

- study and evaluate major Vermilion Community College (VCC) 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 VCC 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 benefits and related costs of control procedures. The objectives of a

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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 VCC 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 VCC. The purpose of our testing of transactions was to obtain reasonable assurances that VCC 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 Vermillion 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 VCC 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 VCC All College Fund activities and other functions not accounted for on SWA. These included a review of the VCC emergency loan fund, bookstore, food service, and vending auxiliary enterprise activities, vehicle use, and a review of the college's relationship with the VCC 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 VCC 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 VCC All College Fund. Student financial aid programs administered by VCC will be audited by a private CPA firm for fiscal year 1985.

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Conclusions

In our opinion, except for the issues raised in Section II, Recommendations 1 through 8, and except for the federal programs which we did not audit as described in the Scope Limitations section of this letter, the VCC 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, VCC administered its state funded programs in compliance, in all material respects, with applicable finance-related laws and regulations.

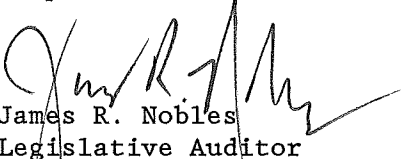
Compliance over federal programs administered by VCC was not evaluated by us, and accordingly, we do not express an opinion on college compliance with those programs.

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

Recordings of financial transactions in manual ledgers for VCC 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 VCC progress on implementing these recommendations.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

July 17, 1986

VERMILION COMMUNITY COLLEGE

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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 |
| Kathy Quandt | Auditor-in-Charge |
| Mary Lentsch | Staff Auditor |
| Ellen Merlin | Staff Auditor |

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Arrowhead Region, the Vermilion Community College and the Community College System at an exit conference held on April 3, 1986:

| |
|---|
| Jon M. Harris, VCC Provost |
| Ross Peterson, VCC Campus Services Director |
| Beverly Lobe, VCC Account Clerk |
| William Maki, Arrowhead Region Director of College Services |
| Jerome Jarosch, Community College System Internal Auditor |

VERMILION COMMUNITY COLLEGE

I. INTRODUCTION

Vermilion Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Vermilion 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. Jon M. Harris has served as provost at Vermilion Community College since 1983.

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.

Vermilion Community College collected \$555,633 in tuition and \$58,751 in other receipts for a total of \$614,384 for fiscal year 1985. These represent 2.0 percent of total fiscal year 1985 community college system receipts. During fiscal year 1985, Vermilion Community College spent \$1,676,570 for general operations through the statewide accounting system. This includes \$1,255,410 in payroll and other personal service costs. Vermilion's general operating disbursements represent 1.8 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 | 171 | 59 |
| Fall | 639 | 497 |
| Winter | 608 | 484 |
| Spring | 501 | 419 |

VERMILION COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Weaknesses exist in the controls over imprest cash.

Vermilion Community College (VCC) maintains an imprest cash account authorized by the Community College Chancellor's Office. VCC had an authorized imprest cash amount of \$5,000 until May 1985, when the amount was increased to \$10,000. Items paid out of imprest cash include miscellaneous local purchases, bulk mailing postage, tuition refunds and payment of non-employee purchased services such as referees, score keepers, speakers, and lecturers. Travel and payroll advances can also be paid from imprest cash.

The Community College Chancellor's Office has established written policies and procedures to control imprest cash disbursements at the community colleges. Our review and a recent review of VCC imprest cash by the Community College Board internal auditor indicated that VCC was not complying with established procedures in the following instances:

- The imprest cash account was not reconciled to its full authorized amount during fiscal year 1985. In fact, when personnel did reconcile the imprest cash account to the \$10,000 authorized amount in fiscal year 1986, a \$369 cash shortage was noted. We were unable to determine the cause of the shortage. However, it probably consisted of several errors which occurred over time. If reconciliations of the imprest cash account had been done in a timely manner, individual errors could have been caught and corrected when they occurred.
- An advance of auxiliary enterprise money to the imprest cash account was not repaid in a timely manner. The auxiliary enterprise account advanced \$2,000 to the imprest cash account in September 1984. This money was not returned to the auxiliary enterprise account until May 1985. Community college policy allows funds to be loaned to the imprest cash account during peak periods, especially during registration, when tuition refunds are paid through imprest cash. However, these borrowed funds should be returned as soon as the peak period has ended. In May 1985, VCC received authorization to increase its imprest cash balance from \$5,000 to \$10,000, which should lessen the need for borrowing from other accounts.
- Seven of ten travel advances to employees were not settled promptly after the travel occurred. Two employees received advances of \$350 each for travel which occurred in early January 1985. These advances were not repaid until May 30, 1985. According to Department of Finance policy, all travel advances should be settled within 30 days after the travel.

VERMILION COMMUNITY COLLEGE

RECOMMENDATIONS:

1. *The imprest cash fund should be reconciled monthly to its authorized limit.*
2. *All money advanced from other accounts to the imprest cash fund should be reimbursed as soon as the peak period has ended.*
3. *All travel advances should be repaid within thirty days as required by Department of Finance policies.*

Vermilion Community College does not adequately document the receipt of merchandise before the payment of invoices.

VCC usually receives all ordered items at a centralized receiving area. The items are then distributed to the individual who initiated the order. This person is required to verify that all items listed on the packing slip are actually received. Any packing slips, bills of lading or other types of receiving documentation included with the merchandise are then to be sent to the business office.

However, receiving reports have not always been obtained or retained. For example, no receiving reports were on file for a \$3,465 duplicating machine nor for three file cabinets costing \$612. In addition, some packing slips which were on file had not been signed by the individual who had received the goods.

To provide an effective audit trail and to ensure that payments are correct, packing slips should be retained to serve as receiving reports. Signed and dated receiving reports are also required by the Department of Finance operating procedure 06:05:01. If a packing slip is not included in the shipment, a receiving report should be used. In either case, the document used should be signed and dated by a person working in the centralized receiving area.

RECOMMENDATION:

4. *A packing slip or receiving report should be kept to document that goods were actually received. All packing slips and receiving reports should be signed and dated by the person receiving the goods.*

VERMILION COMMUNITY COLLEGE

Receipts are not always deposited promptly.

VCC collects tuition and other receipts and deposits these receipts directly into the state depository or local bank accounts. Minn. Stat. Section 16A.275 requires that agencies "shall deposit receipts totaling \$250 or more in the state treasury daily." Community College Board policy has a similar requirement for locally held funds. However, over one-third of the twenty daily receipts for fiscal year 1985 which we tested were not deposited daily as required. In one case, over \$6,000 was held for five days before deposit.

Receipts exceeding \$250 should be deposited daily as required, to assure that minimum cash is maintained at the college and interest is earned on receipts collected.

RECOMMENDATION:

5. *Receipts in excess of \$250 should be deposited daily, in accordance with Minn. Stat. Section 16A.275.*

VCC food service receipts are not adequately controlled.

The VCC food service, operated by the college as an auxiliary enterprise, provides a cafeteria service for students. Internal controls over food service receipts are not adequate to prevent errors or irregularities from occurring or being detected. The food service cashier has complete control over the receipts process.

The cashier is responsible for entering sales on the cash register. Each afternoon the cashier closes out the cash register and receives a cash register tape that details the sales for the day. The money attributable to daily sales is removed from the register and the remaining money is counted. The ending cash balance should equal the cafeteria change fund balance of \$100. When it is either short or over, the cashier makes up the difference the next work day by over or under recording a food sale.

In addition, the food service cashier does not document cash register voids. Sales incorrectly entered on the cash register are handled similarly to the way cash overages/shortages are handled. The error is corrected by either adjusting or not entering a subsequent food sale.

By manipulating sales recorded on the cash register, the cashier has circumvented all of the controls which a cash register provides. Cash could be removed from the register and the shortage never detected. To provide a good system of internal control, these over and short amounts should be documented. They should be included in the cash reconciliation on the day they occur. Voids should be documented and corrected when they occur.

To provide better internal control, all sales should be rung through the cash register intact. Periodically, someone other than the cashier should

VERMILION COMMUNITY COLLEGE

close out the cafeteria register and reconcile receipts to the cash register tape. On all other days, at minimum, someone independent of the food service should review this reconciliation and all documentation supporting misrings and voids. This reconciliation should also be compared to the subsequent deposit slip.

RECOMMENDATION:

6. *VCC should improve internal controls over food service receipts by requiring that all sales be recorded on the cash register and by adequately separating duties over receipts.*

Transcripts are not always held for students who have past due emergency loans.

VCC has two emergency loan programs, an Indian Loan Fund and one originating from donor contributions. These emergency loan programs are part of the All College Fund and were set up to assist students who need immediate cash for books or living expenses. When a loan is granted, the student signs a promissory note and agrees to pay back the loan within 30 days. Loan application forms state that the maximum student loan must not exceed \$75 for VCC emergency loans and \$300 for Indian student loans, unless special arrangements are made.

After students receive a loan check, their promissory notes are placed in a pending file until the money is repaid. Students are encouraged to repay their emergency loan when financial aid checks, work-study checks, or other funds are received. If students do not repay loans in a timely manner, the loans are submitted for revenue recapture. However, revenue recapture can only be done once per year and is sometimes ineffective.

Currently, transcripts for students with overdue loans are not always being held. This procedure would be useful to promote payment of loans less than one year old, or in cases where revenue recapture has not been effective. When a student's emergency loan becomes past due, the account clerk should notify the records office to hold the student's transcript until the emergency loan is repaid. This process may encourage students to repay emergency loan funds and would at least prevent their transcripts from being released while loans are outstanding. Withholding transcripts for past due student loans could help to preserve loan fund balances for future students.

RECOMMENDATION:

7. *The account clerk should notify the records office when students emergency loans become past due. The records office should then implement measures to prevent release of these transcripts until emergency loan funds have been repaid.*

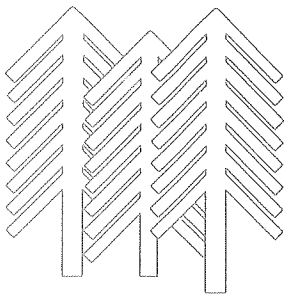
VERMILION COMMUNITY COLLEGE

No written contract exists between Vermilion Community College and its recreational games vendor.

Northstar Vending has a verbal agreement with VCC to place recreational games, such as video games and a pool table, on VCC's campus. In return, VCC earns a certain percentage of the money collected from the games. Money is taken from the machines each month by a Northstar Vending representative while a college official watches. Northstar Vending personnel then calculate the percentage of money due to VCC, complete a receipt showing the calculation, and issue a check to VCC for their percentage. Specific terms of the agreement, such as the percentage of the money due to VCC, have not been formalized in writing between VCC and Northstar Vending. A written agreement would eliminate any confusion or misunderstandings which may exist concerning each parties rights and responsibilities. It would also establish who has liability for any damaged or stolen equipment or machines.

RECOMMENDATION:

8. *VCC should negotiate a written contract defining necessary terms and responsibilities with Northstar Vending regarding the use of the recreational games on VCC's campus.*



VERMILION
COMMUNITY
COLLEGE

July 17, 1986

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

Dear Ms. Leifeld:

Enclosed is the formal response to the audit your office conducted at Vermilion Community College in March and April of 1986. Our responses will only be directed to the recommendations made by your office. We have no major disagreements with your statements of Introduction, Scope, Conclusion or descriptions of current procedure.

My staff and I would like to thank the auditing team of Kathy Quandt, Mary Lentsch, and Ellen Merlin for assisting us toward our goal of establishing the best fiscal operation we can. Because of their expertise and cooperative attitude all staff members who dealt with them attempted to be as helpful as possible which enabled the auditing team to cover much more ground than they had originally anticipated while impacting our operation only slightly. Lacking an extensive accounting background, I felt that the auditing team was helpful to me and my operation. I commend them for thoroughly doing their job while still allowing us to do ours.

Sincerely,

Ross Petersen
Campus Services Director

RP:jh

Enclosure

cc JM Harris
Phil Anderson
WD Maki

1900 E. Camp Street
Ely, MN 55731-1996
2 8/365 3256



VERMILION COMMUNITY COLLEGE

RECOMMENDATION 1

The imprest cash fund should be reconciled monthly to its authorized limit.

RESPONSE TO #1

Imprest cash is currently being reconciled monthly to its authorized limit, and this will continue.

Person Responsible: Ross Petersen
Implementation Date: Immediately

RECOMMENDATION 2

All money advanced from other accounts to the imprest cash fund should be reimbursed as soon as the peak period has ended.

RESPONSE TO #2

When the limit for imprest cash was \$5000, the college was routinely operating near the limit. For convenience of operation we did not transfer funds back and forth between accounts. With our current imprest limits the need to transfer from Auxillary will no longer be routinely needed. If funds are transferred in, they will be transferred back as soon as possible.

Person Responsible: Ross Petersen
Implementation Date: Immediately

RECOMMENDATION 3

All travel advances should be repaid within thirty days as required by Department of Finance policies.

RESPONSE TO #3

Convincing faculty to file expense reports and repay travel advances can frequently be a difficult task. Reminders sent by the business office often elicit no response. In an effort to control this problem the college has instituted a policy whereby travel advances from imprest cash will not be given to any faculty member who has not repaid two travel advances within thirty days.

Person Responsible: Ross Petersen
Implementation Date: Immediately

RECOMMENDATION 4

A packing slip or receiving report should be kept to document that goods were actually received. All packing slips and receiving reports should be signed and dated by the person receiving the goods.

RESPONSE TO #4

Packing slips or receiving reports are currently being kept as directed by the auditing team.

Person Responsible: Ross Petersen
Implementation Date: Immediately

RECOMMENDATION 5

Receipts in excess of \$250 should be deposited daily, in accordance with Minn. Stat. Section 16A.275.

RESPONSE TO #5

Receipts are currently being deposited as directed by the auditing team.

Person Responsible: Ross Petersen
Implementation Date: Immediately

RECOMMENDATION 6

VCC should improve internal controls over food service receipts by requiring that all sales be recorded on the cash register and by adequately separating duties over receipts.

RESPONSE TO #6

Internal controls over Food Service receipts will be improved as directed by the auditing team when the Food Service resumes operation in the fall of 1986.

Person Responsible: Ross Petersen
Implementation Date: September 1, 1986

RECOMMENDATION 7

The account clerk should notify the records office when students emergency loans become past due. The records office should then implement measures to prevent release of these transcripts until emergency loan funds have been repaid.

RESPONSE TO #7

The business and records branches of the Campus Services Dept. work very closely in the collection tuitions, fees and loans.

RESPONSE TO #7 cont.

When this department deems that the best procedure in an individual case is to hold transcripts, we do not hesitate to do so and regularly do. However, we resist the suggestion that we establish a due date when transcripts are automatically withheld. I believe Vermilion's policy of reviewing individual loans is much more beneficial to the student body than freeing up a few more dollars in a fund which is rarely short of money. When the Campus Services Director deems that transcripts should be withheld, there should be a written policy which explains what the procedure will be including where the records office will post notification to insure that transcripts are withheld.

Person Responsible: Ross Petersen
Implementation Date: August 1, 1986

RECOMMENDATION 8

VCC should negotiate a written contract defining necessary terms and responsibilities with Northstar Vending regarding the use of the recreational games on VCC's campus.

RESPONSE TO #8

When Vermilion Community College resumes rental of recreational games in the fall of 1986, a contract with the vendor will be negotiated as per directions by the auditing team.

Person Responsible: Ross Petersen
Implementation Date: Resumption of rental approximately September 1, 1986.