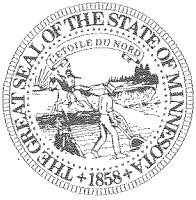


**COMMUNITY COLLEGE SYSTEM
INVER HILLS COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

AUGUST 1986

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Dr. Patrick Roche, President
Inver Hills Community College

Audit Scope

We have completed a financial and compliance audit of Inver Hills Community College (IHCC) for the three years 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 June 5, 1986.

The objectives of the audit were to:

- study and evaluate major Inver Hills Community College (IHCC) 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; and
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

The management of IHCC 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 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.

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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 IHCC 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 IHCC. The purpose of our testing of transactions was to obtain reasonable assurances that IHCC 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 Inver Hills 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 local records and 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 IHCC 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 IHCC All College Fund activities and other functions not accounted for on SWA. These included a review of the IHCC bookstore, the food service and vending machine contracts, the college learning center, and the college's relationship with the IHCC 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 IHCC All College Fund activities were proper.

We did not audit any federal programs, including student financial aid programs, for compliance with federal regulations for fiscal years 1983 through 1985. Student financial aid programs are a part of the IHCC All College Fund. Student financial aid programs administered by IHCC will be audited by a private CPA firm for fiscal year 1985.

During this audit, we conducted interim work on our fiscal year 1986 audit of material Community College System federal programs. Testing relating to these programs will be done at a later date. Work done at this time

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was not sufficient to express an opinion on internal accounting controls or compliance with finance-related laws and regulations for IHCC federal programs.

Conclusions

In our opinion, except for the issues raised in Section II, Recommendations 2 through 6, and except for the federal programs which we did not audit as described in the Scope Limitations section of this letter, the IHCC system of internal accounting control in effect on April 30, 1986, 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 three years ended June 30, 1985, IHCC administered its state funded programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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

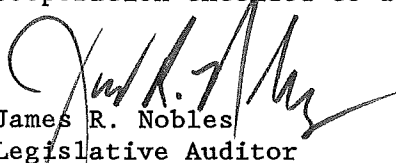
In our opinion, for the three years ended June 30, 1985, IHCC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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

Recommendation 1 discusses issues concerning the relationship between IHCC and the IHCC Foundation. Although we did not audit the IHCC Foundation, we reviewed IHCC's responsibility to provide administrative support to the foundation.

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 IHCC progress on implementing these recommendations.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 18, 1986

INVER HILLS 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
Tony Toscano	Auditor-in-Charge
Colleen Berg	Staff Auditor
Paul Cullen	Staff Auditor
Patrick Ryan	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Inver Hills Community College at an exit conference which was held on July 29, 1986:

Dr. Patrick Roche, President
Larry Margolis, Business Manager
Ron Wiger, Financial Aid Director
Rose Davis, Accounting Technician
Glenn Wood, Community College System Accounting Manager

INVER HILLS COMMUNITY COLLEGE

I. INTRODUCTION

Inver Hills Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a president. Dr. Patrick Roche is the president of Inver Hills Community College. Dr. Roche has served as president since September 1984. Prior to Dr. Roche, Wallace Simpson served as president of the 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.

Inver Hills Community College collected \$2,156,020 in tuition and \$306,816 in other receipts for a total of \$2,462,836 for fiscal year 1985. These represent 8.2 percent of total fiscal year 1985 community college system receipts. During fiscal year 1985, Inver Hills Community College spent \$6,111,326 for general operations through the statewide accounting system. This includes \$5,096,052 in payroll and other personal service costs. Inver Hill's general operating disbursements represent 6.7 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	356	110
Fall	3781	1977
Winter	3415	1781
Spring	3156	1615

INVER HILLS COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

The relationship between IHCC and its foundation is not clearly defined.

Each community college is associated with a college foundation. The foundations are separate nonprofit organizations established to provide funds for program development, scholarships, and other means of financial support at each college.

There is a very close relationship between IHCC and the IHCC Foundation. This is evidenced through the following:

- The college provides accounting services for the foundation. However, there is no written agreement between the college and the foundation concerning these services.
- A foundation review committee made up entirely of college personnel has the authority to veto action taken by the foundation Board of Directors.
- The foundation's funds are maintained in the same bank account as IHCC's All College Fund.
- Checks written on the foundation checking account do not require the signature of a foundation board member but rather are signed by college personnel.
- Letters thanking those who contribute to the foundation are sent out on college letterhead stationery.

All of these situations seems to indicate that the IHCC Foundation does not have a distinct identity separate and apart from the college. In fact, it is difficult to determine exactly what function the foundation serves in soliciting funds for IHCC which could not be handled directly by the college itself.

IHCC needs to determine to what extent it wants to be involved in college fund raising activities. If IHCC decides that it wants to be associated with a foundation, then it is important for the foundation to be separate from the college not only for the benefit of donors so they can be sure of who they are dealing with, but also because funds deposited in the foundation accounts are not subject to the state regulations which IHCC must follow. It may be possible to use the foundation as a means of circumventing established state accounting and purchasing procedures. This is acceptable only if the foundation has independent management which exercises appropriate control over the foundation's purchasing and spending decisions, apart from the university.

To ensure that the foundation is separate and distinct from the college, and to avoid any conflict of interest for IHCC employees, those employees should not be involved in the management or policy decisions of the foundation.

INVER HILLS COMMUNITY COLLEGE

RECOMMENDATION:

1. *IHCC should decide whether or not it is going to be associated with a foundation. If a foundation continues, IHCC should work with the IHCC Foundation to clarify the role of each to ensure that the two entities are separate and distinct including the following:*
 - *foundation management and policy decisions should be autonomous from the college;*
 - *foundation funds should be maintained in its own checking account;*
 - *checks written on the foundation checking account should include at least one foundation signature;*
 - *there should be a written agreement between the college and the foundation clarifying the duties and responsibilities of each party; and*
 - *gifts to the foundation should be acknowledged by the foundation on foundation letterhead.*

Internal controls over receipts for book sales at the Oneida Learning Center need improvement.

The Oneida Learning Center was developed to allow residents of St. Paul to take courses for college credit. The center is located in the downtown area and run as an extension of Inver Hills Community College. Class registration, tuition, and book sales are all handled through IHCC. Books are sold to students at the learning center during the first four days of each quarter. These books are sent from the IHCC bookstore to the learning center and those that are not sold are returned to IHCC after the four day period. Cash received from book sales is sent to the IHCC bookstore daily. These receipts are accounted for as a part of normal bookstore sales and receipts.

The sales of books are subject to the following controls:

- books that are sent to the learning center are counted at the bookstore before they are sent;
- a record is made of the quantity and sales price of each type of book;
- only one person at the learning center is allowed to sell books; and
- the books that are returned are later counted again.

INVER HILLS COMMUNITY COLLEGE

Although these controls provide a good basis for ensuring that book sales are handled properly, there is still the need for a formal reconciliation of books sold to actual cash receipts. Currently, there is no formal reconciliation of books sold to actual cash receipts. In order to maintain effective control over book sales at the learning center, IHCC personnel need to complete a reconciliation to show that IHCC has received all the money it is entitled to based on the final inventory of books returned from the learning center. Without a reconciliation of books sold to receipts deposited, controls are weakened and the potential for errors or irregularities to go undetected is increased.

RECOMMENDATION:

2. *IHCC should perform a formal reconciliation of books sold at the learning center to cash received and deposited.*

IHCC does not adequately document the receipt of merchandise before the payment of invoices.

Disbursements for IHCC operations, the IHCC bookstore, and the learning center are all handled by the IHCC business office. However, in all three cases there is not adequate documentation on file to support the receipt of goods before payments are made.

Bookstore personnel indicated that invoices are compared to purchase orders and packing slips. However, once this is done the invoice is initialed and the packing slip is discarded.

At the Oneida Learning Center, goods when received are compared to purchase orders and packing slips. However, in many cases when the invoices are sent to IHCC for payment the packing slips are not included. The business office has been verbally verifying the receipt of goods with the learning center.

Finally, for general IHCC disbursements the verification of the receipt of goods is not done in a timely manner. Rather than preparing a receiving report when the goods are actually received, the person who orders the goods responds to a memo from the business asking whether or not the goods have been received.

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 prepared. In either case, the document used should be signed and dated by the person receiving the goods. Verbal or written evidence received after the fact, although it does provide some support, does not provide an adequate audit trail to ensure that only those goods which have been received are paid for.

RECOMMENDATION:

3. *IHCC should ensure that invoices are matched against packing slips or receiving reports before being paid, and that these documents are retained on file with the invoices.*

INVER HILLS COMMUNITY COLLEGE

Internal controls over noncredit course tuition and general education examination receipts need to be strengthened at Inver Hills Community College (IHCC).

IHCC collects tuition and miscellaneous fees. Miscellaneous fees include those for noncredit courses and for general education (GED) examinations. The Registrar's Office handles noncredit courses. The same person in the registrar's office handles class registration, prepares student fee statements, collects noncredit tuition, and prepares class rosters. Because one person is responsible for all of these duties, it would be possible for a student to be enrolled in class without paying tuition, or have their tuition money diverted. Likewise with the GED exam, there is an inadequate separation of duties. One person in the Student Information Office registers students for the examination, collects exam fees, and gives the exams.

An inadequate separation of duties occurs whenever one person performs a number of functions, allowing errors or irregularities to potentially be concealed by that person. In order to maintain effective controls over any process, incompatible functions should be separate and not concentrated with only one or a few individuals. This could be done by separating duties or, at minimum, performing independent reconciliations of receipts in these areas.

RECOMMENDATION:

4. *IHCC should ensure that incompatible functions in the noncredit and GED examination fee collection process be performed by separate individuals or that independent reconciliations be performed.*

The imprest cash account at IHCC is not being reimbursed for travel advances in a timely manner.

IHCC maintains an imprest cash account authorized by the Community College Chancellor's Office and the Department of Finance. The imprest cash account is used for a variety of payments including tuition refunds, non-employee purchased services, miscellaneous local purchases, and employee advances, pursuant to applicable Community College Board policies and Department of Finance policies and procedures. Generally, payments from the imprest cash account are reimbursed from the IHCC operating account through the Statewide Accounting (SWA) System. Advances for payroll, travel and conference fees are reimbursed by the person receiving the advance.

Department of Finance policy requires that all travel advances be settled within 30 days after the travel occurs. Of the ten travel advances tested at IHCC, nine of them remained unpaid for longer than the 30 day period. The repayments ranged from 34 to 136 days after the travel occurred. The amount of the advances ranged from \$55 to \$611. By not reimbursing the imprest cash account within 30 days after the travel period, IHCC is not complying with Department of Finance guidelines. Also, without prompt reimbursement, the imprest cash account could experience cash flow problems.

INVER HILLS COMMUNITY COLLEGE

RECOMMENDATION:

5. *IHCC should ensure that all travel advances paid out of the imprest cash account are reimbursed within 30 days after the travel occurs.*

Controls over vending machine and cafeteria food sale revenues need to be improved.

IHCC contracts with Canteen Corporation to provide the college with food service and vending machines. Under the terms of the contract, IHCC is to receive a sales commission of four percent of gross sales on the food service and twenty-one percent of gross sales on the vending machines. Commissions are paid to the college on a monthly basis.

Currently, collections are made from the vending machines on a monthly basis, however, nobody from the college accompanies the representative from Canteen Corporation, and no meter readings are provided for the college. For the food service, all sales are rung up on a cash register. At the end of each day, a cash register reading report is prepared and a copy of this report is provided to the college. The college also receives a monthly report which is then reconciled by college personnel to the daily reports. However, there is no verification made by college personnel of the cash register readings that are entered on the daily reports.

In order to maintain effective controls over food service and vending machine revenues, IHCC needs to establish procedures to assure itself that all revenue due to it is actually being received.

Proper internal control over vending and food service operations can usually be obtained by periodic spot-checks of machine and cash register readings. Without periodic verifications, IHCC cannot assure itself that they are receiving all of the money that is due to them.

RECOMMENDATION:

6. *Someone from IHCC should periodically verify the vending machine and cash register meter readings to ensure all the money due to the college is received.*



INVER HILLS COMMUNITY COLLEGE
8445 College Trail
Inver Grove Heights, Minnesota 55075
612-455-9621

August 18, 1986

Mr. John Asmussen, CPA
Deputy Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Asmussen:

We have reviewed your office's draft audit report of Inver Hills for the three years ended June 30, 1985. The following is a response to your comments and findings.

1. The relationship between Inver Hills Community College and its Foundation is not clearly defined.

The IHCC Foundation will continue with the following changes:

- 1) With the elimination of the Foundation Advisory Committee in the new Articles of Incorporation, and the President serving as an ex-officio non-voting member of the board, the Foundation's management and policy decisions will be autonomus from the college.
- 2) The Foundation will have a separate checking account with at least one regular Foundation member signature required on all checks.
- 3) A contract for services between the Foundation and the College has been prepared and will be voted on at the next Foundation meeting.
- 4) Foundation letterhead will be requested at the next Foundation meeting which is to be used for all Foundation correspondence including acknowledgement of gifts.

All of the above will be accomplished at the August and/or September meetings of the Foundation by their adoption of new Articles of Incorporation, By-Laws and Contract of Agreement with the College.

2. Internal controls over receipts for book sales at the Oneida Learning Center need improvement.

Nancy Johnson will develop a formal reconciliation form which will reconcile the number of books sold, the number of books returned and the amount of cash and charge sales. This form will be developed by the beginning of Fall Quarter 1986.

3. Inver Hills Community College does not adequately document the receipt of merchandise before the payment of invoices.

For bookstore payments, Nancy Johnson will be responsible for verifying that the invoices, packing slips and other documents are retained on file.

For the St. Paul Learning Center, a memo dated August 5, 1986 was sent to the Center's Director, Sylvia Herndon, requesting all packing slips and invoices be sent to the Business Office as soon as received.

For general college disbursements, Mary Pat Lentsch will be responsible for verifying the proper documents are retained in the Colleges' files.

The above actions will be implemented immediately. In addition, Larry Margolis will send out a notice to all employees through the College's Staff Bulletin requesting all packing slips received by employees be signed and returned to the College's Business Office.

4. Internal controls over non-credit course tuition and general education (GED) examination receipts need to be strengthened at Inver Hills Community College.

We have revised the GED payment procedure as follows:

<u>Responsibility</u>	<u>Action</u>
Student	1. Reports to the GED office
Jan Mogen	2. Prepares fee statement (3-part form)
	3. Directs student to the Business Office
Student	4. Presents fee statement and payment to cashier
Cashier	5. Initials fee statement, notes check number or cash payment on fee statement and rings fee statement through cash register
	6. Returns white copy of fee statement to the student, yellow copy to the GED office (done periodically) and retains the pink copy with the daily ring-out

- | | |
|-----------|---|
| Student | 7. Presents white copy of paid fee statement to Jan Mogen. |
| Jan Mogen | 8. Upon presentation of paid fee statement, administers test(s) |

For the non-credit courses, each instructor is given a packet of information by Rosie Giefer which includes a class list form with instructions to have each student sign the list and once completed to forward the list to the Business Office. Once received in the Business Office, the Business Office verifies that payment was received for each student listed on the class list. The class list is compared against the alphabetic listing maintained in the Records and Admissions Office by Darlene Kalbler. This procedure will be implemented by the beginning of Fall Quarter 1986.

5. The imprest cash account at Inver Hills Community College is not being reimbursed for travel advances in a timely manner.

In addressing this problem, we have developed a written travel advance procedure which Rose Davis gives to each employee at the time they receive their travel advance check. In addition, Rose sends out a reminder memo each month to those employees with outstanding travel advances.

6. Controls over vending machine and cafeteria food sale revenues need to be improved.

Larry Margolis will meet with the Food Service Director, Donna McDonough, to determine when the vending machine and cash register meter readings are taken. Once this is determined, Mr. Margolis will develop a schedule (probably monthly at the beginning of implementation) and designate a Business Office employee to monitor the various meter readings. These periodic verifications will be implemented during Fall Quarter 1986.

If you need more information on any of our responses or have any questions, please call Larry Margolis at 455-9621, Ext. 366.

Sincerely,



Patrick A. Roche
President

PAR/co

cc: Eric Radtke