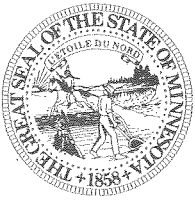


**MINNEAPOLIS COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

JANUARY 1988

**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

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Mr. Earl Bowman, President
Minneapolis Community College

Audit Scope

We have completed a financial and compliance audit of Minneapolis Community College (MCC) for the three years ended June 30, 1986, 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 August 21, 1987.

We have issued a separate management letter to the Community College System, dated March 26, 1987, which includes the audit of major federal programs administered by MCC for the fiscal year ended June 30, 1986.

The objectives of the audit were to:

- study and evaluate major Minneapolis Community College internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements, imprest cash, and federal student financial aid;
- verify that financial transactions 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.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Dr. Gerald Christenson, Chancellor
Members of the Community College Board
Mr. Earl Bowman, President
Page 2

Management Responsibilities

The management of MCC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments 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.

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 MCC 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 MCC. The purpose of our testing of transactions was to obtain reasonable assurances that MCC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitations

We did not audit major federal programs at MCC for the two fiscal years ended June 30, 1985. Major federal programs were audited by a private CPA firm for those years. We did not review the work done by other auditors on the federal programs and have placed no reliance on their work.

As part of this audit, we evaluated internal controls and conducted certain compliance tests relating to major federal programs at MCC for fiscal year 1987. This audit work was done as a part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. Additional testing of these programs, including tests of student eligibility and compliance, will be completed after June 30, 1987.

Suspected Theft of Funds

Our audit tests revealed evidence which indicates that a former business office employee may have embezzled several thousand dollars from the college. We notified the Attorney General of our suspicions and have been working with the Hennepin County Attorney on the case. The County Attorney filed criminal charges against the former employee on October 23, 1987.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Dr. Gerald Christenson, Chancellor
Members of the Community College Board
Mr. Earl Bowman, President
Page 3

This suspected theft was possible because of the severe weaknesses in the college's system of internal controls. In particular, the vulnerability of the cash controls discussed in recommendations 1-10 exposes the college to the most significant risk. Recommendation 20 of our prior Audit Report also cited the deficiencies in cash controls. The college failed to implement that prior recommendation, allowed the control weaknesses to remain, and permitted the theft of its funds. Therefore, it is absolutely imperative that prompt corrective actions be implemented in the near future.

Conclusions


Our study and evaluation disclosed the issues addressed in the previous paragraph and Section II, recommendations 1 through 34, concerning the Minneapolis Community College system of internal accounting controls in effect as of April 30, 1987. In our opinion, these issues result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the college may occur and not be detected within a timely period.

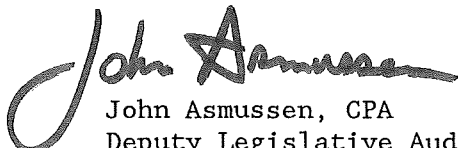
In our opinion, subject to the effects, if any, of the federal programs which we did not audit as described in the Scope Limitations section of this letter, and except for the issues addressed in Section II, recommendations 8, 11-15, 18, 25, 27, 29, 30, and 32, for the three years ended June 30, 1986, MCC administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

In our opinion, except for the issues addressed in Section II, recommendations 2, 3, 5-7, 10, 20, 27, 28, and 32-34, for the three years ended June 30, 1986, MCC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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 MCC's progress on implementing these recommendations.

We would like to thank the Minneapolis Community College staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 5, 1988

THIS PAGE INTENTIONALLY LEFT BLANK

MINNEAPOLIS COMMUNITY COLLEGE

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
Business Office Cash Controls	2
Imprest Cash	10
Bookstore	13
Financial Aid	16
Fixed Assets	21
III. STATUS OF PRIOR AUDIT RECOMMENDATIONS AND PROGRESS TOWARD IMPLEMENTATION	23
AGENCY RESPONSE	28

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
David Polisen	Auditor-in-Charge
Jean Mellett, CPA	Staff Auditor
Patrick Ryan	Staff Auditor
Rhonda Warner	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in in this report were discussed with the following officials of Minneapolis Community College and Minnesota Community College System at an exit conference which was held on September 9, 1987:

Eric Radke	MCCS Director of Finance
Glenn Wood	MCCS Director of Fiscal Services
Jerry Jarosch	MCCS Internal Auditor
Earl Bowman	Minneapolis Community College President
Val Moeller	MCC Dean of Academic and Fiscal Affairs
Bob Moeller	MCC Financial Aid Director
Henry Stevens	MCC Accounting Supervisor
Sharon Nelson	MCC Bookstore Supervisor
Vicky Townsend	MCC Account Clerk Senior
Marie Peterson	Lakewood Community College Business Office Manager
Bonnie Anderson	Anoka Ramsey Community College Business Officer
Larry Margolis	Inver Hills Community College Business Manager

THIS PAGE INTENTIONALLY LEFT BLANK

MINNEAPOLIS COMMUNITY COLLEGE

I. INTRODUCTION

Minneapolis Community College (MCC) is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of Mr. Earl Bowman, the college president.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Financial activities are accounted for on the statewide accounting system, the community college allocation and accounting system, and the local All-College Fund under policies and procedures established by the Board.

During fiscal years 1984-1986, MCC had tuition receipts and expenditures for general operations through the statewide accounting system as follows:

<u>Fiscal Year</u>	<u>Tuition Receipts</u>	<u>Percent of Total Community College System</u>	<u>General Operating Expenditures</u>	<u>Percent of Total Community College System</u>
1984	\$2,025,181	7.8%	\$5,694,076	7.6%
1985	\$2,115,672	8.0%	\$6,367,779	7.8%
1986	\$2,354,931	8.3%	\$6,688,390	7.6%

MINNEAPOLIS COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Business Office Cash Controls

Each year the business office is responsible for collecting and depositing over \$2 million in cash receipts. Several control weaknesses expose this very sensitive accounting area to an unnecessarily high risk. Problems exist in the following areas:

- Duties are not properly segregated.
- Critical cash register adjustments are not always documented or reviewed.
- Staff do not comply with the security measures necessary to protect the computerized student registration system.
- Certain receipts are not rung through the cash register and not adequately controlled by other means.
- Receipts are not always deposited on a timely basis.
- Students are permitted to attend classes without paying tuition.
- Nonsufficient funds checks are not properly pursued and collected.
- The college check cashing fund exceeds its authorized level.

These areas require immediate attention to provide assurance that cash is adequately protected against loss, theft, or misuse. Each area is discussed in more detail on the following pages.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Duties involving cash are not adequately segregated.

Tuition receipt duties at the Minneapolis Community College are inadequately separated. This lack of duty separation has permitted errors and irregularities to occur. Undetected errors and irregularities could continue to occur unless Minneapolis Community College personnel properly separate receipts duties, demand staff accountability for the performance of assigned duties, and increase the level of supervision in the receipts area.

At Minneapolis Community College, cash receipt duties, cash recording duties, and cash accounting function are improperly separated. One person who regularly receives cash and rings out the cash register also completes cash receipt reports, deposit documents, and cash reconciliations. Accordingly, when the same person is allowed access to cash together with control of the accounting records, there is a possibility that cash may be stolen and the theft not be detected.

MINNEAPOLIS COMMUNITY COLLEGE

Position descriptions of business office employees provide for an acceptable separation of duties. However, because of inadequate supervision, employees often deviated from the duties provided in their position descriptions. Specific problems occurred in the following areas:

- The person who regularly performed receipt duties often allowed another employee to perform these duties. This second person also had access to cash.
- Certain cash reconciliations were mathematically incorrect. Other cash reconciliations were missing.
- Supporting receipt documentation (fee statements, cash register tapes, and adjustment slips) showed that improper and unsubstantiated adjustments (see recommendation #2) occasionally had been made to receipts records, thereby reducing the amount of money deposited with the state. Accordingly, the state did not receive revenue to which it was entitled by law.

The above irregularity occurred because one person was allowed access both to cash and the accounting records. The above irregularity was not detected by college staff because the Minneapolis Community College did not provide for independent verification of accounting records through the segregation of duties within the accounting function.

RECOMMENDATION:

1. In order to prevent and detect future errors and irregularities, Minneapolis Community College personnel should properly separate receipts duties, demand staff accountability for the performance of assigned duties, and increase the level of supervision in the receipts area.

Controls over cash receipt adjustments are inadequate.

Occasionally transactions are incorrectly entered on the cash register. A cash register adjustment transaction must then be recorded so that the final cash register reading will agree with cash collections. Adjustments are sensitive transactions, because if they are not properly controlled, they may be used to conceal cash shortages.

Cash register adjustments were poorly controlled at MCC and included the following deficiencies:

- Adjustments to cash receipts were not always documented or were missing.
- Total receipt adjustments were not reviewed or approved by a supervisor, or traced to individual receipt documentation by an independent person.

MINNEAPOLIS COMMUNITY COLLEGE

Minneapolis Community College staff are required to use an "Over Ring Record" slip to document adjustments to cash register receipts. The slip identifies cash register operator errors and corrections. Minneapolis Community College's "Over Ring Record" slip documents the amount of the error, the name of the person whose receipt was wrongly recorded, the number of the voided transaction, and the receipt category of the transaction. After writing in the required information, the cash register operator is to initial the slip. Because the information contained on the slip enables personnel to verify the accuracy of both total and individual adjustments, the faithful completion of "Over Ring Record" slips is an important control which helps to ensure that adjustment transactions are valid. Minneapolis Community College personnel, however, did not use these slips to verify the propriety of either total or individual adjustments to cash receipts. In fact, college staff apparently did not realize that on many occasions these slips were not prepared even though there had been thousands of dollars of adjustments to cash receipts.

RECOMMENDATION:

2. To ensure that future adjustments to cash receipts will be valid, the college should require supervisory review and approval of all adjustments to cash receipts. An independent person should reconcile individual and total cash receipts adjustments.

MCC business office personnel need to properly sign off the computer registration system after completing a transaction.

MCC started using the computer registration system in the fall of 1984. The system is designed to record the students' registered classes, payment status and grades. The business office staff, which use the system for payment status, were each assigned a confidential user identification number. The number allows the employee to access the system and make appropriate transactions. Once the employee has completed the job they are to exit the system to allow other employees to make transactions. All transactions are recorded in the main computer at the Community College Board Office. This history allows future inquiries as to who may have made various transactions.

In practice however, MCC employees seldom complied with this critical system access control. The first person to sign on to the system generally never signed off after completing their transaction. This action resulted in nearly all of the day's transactions being recorded under their number, even though several employees made transactions that day. Without the proper log on/off procedures there is no trail to link a particular transaction to an employee if a variance arises later. Also, employees who are not otherwise authorized to make certain transactions were provided with access to the system.

RECOMMENDATION:

3. Business office employees should use proper log on/off procedures and sign off the system after completing their transaction.

MINNEAPOLIS COMMUNITY COLLEGE

Controls over "hand" receipts are inadequate.

MCC collects receipts from a variety of sources, other than tuition and fees, which are referred to as "hand" receipts. Examples include scholarships, grants, and loan repayments. These receipts are recorded on a manual system, not on the cash register, and are physically kept apart from the cash register receipts. The present procedures do not include an adequate segregation of duties over "hand receipts."

The manual system is a ledger system which simultaneously allows the clerk to prepare a customer receipt, when required, and to record receipt information on a ledger. Detailed receipt information is needed for most of these transactions, because of the nonroutine nature of the transaction. Generally, the same person who collects the receipt is to record the transaction on the manual system and secure custody of the customer check or cash. Typically, the receipts are listed, reconciled, and prepared for deposit by an employee who has collected a significant share of these receipts during the day.

The nonroutine nature of these transactions makes them particularly vulnerable to errors and irregularities. This vulnerability is increased because the same person is often responsible for collection, recording, custody, and deposit. The present system does not ensure that all collections are recorded, nor does it ensure that collections are deposited intact. Also, physical custody is weakened because the receipts are retained outside the cash register.

We believe the most expeditious means of improving controls would be to record the receipts on the cash register, in addition to listing the information on the manual system. The receipts could then be retained in the cash register, thereby improving physical security. This change would also subject the receipts to the various cash reconciliation processes and provide a means to detect any errors or irregularities.

RECOMMENDATION:

4. Minneapolis Community College should run the "hand" receipts through the cash register or implement other procedures which will improve controls over them.

Controls to safeguard continuing education receipts are inadequate.

Continuing education and noncredit course fees are received by the Continuing Education Department at the Basilica Arts Building. The Continuing Education Department holds these fees for varying lengths of time before they are brought to the business office for deposit. Before delivery, the department staff generally puts the currency and checks into a manila envelope, but, on occasion, the cash has been delivered to the business office in an open wire basket. Business office personnel do not give the continuing education person who delivers the money a receipt verifying the amount of the delivery. Business office personnel also transferred certain continuing education receipts into other accounts such as

MINNEAPOLIS COMMUNITY COLLEGE

administrative expense without furnishing a copy of the transfer to the Continuing Education Department. Consequently, there are continual accounting discrepancies between Continuing Education Department and business office records for continuing education receipts.

Continuing education receipts are not adequately safeguarded because they are not deposited in a timely manner. Continuing Education staff do not deposit course receipts until after the course has started. The untimely deposit of course fees not only exposes continuing education receipts to the unnecessary risk that checks may be lost, stolen or uncollectible by the time they are deposited, but also creates accounting problems for the Continuing Education staff. Some continuing education checks were not deposited until two to four months after they were received. In some cases, students had closed their bank accounts or stopped payment on their checks before the checks were deposited. In other cases, checks were returned for nonsufficient funds. As a result of these untimely deposit procedures, the Continuing Education Department both loses revenue and adds to its accounting difficulties in reconciling receipts.

In addition, the Continuing Education Departments's deposit procedures are not in compliance with state statute and Department of Finance policy. Department of Finance "Operating Policy and Procedure" 06:06:01 requires agencies to deposit receipts whenever they total \$250. The department's practice of holding receipts violates this policy.

Continuing education and business office records of continuing education receipts show continual discrepancies. Business office records of continuing education receipts show receipts by day of deposit. Until recently, the Continuing Education Department recorded receipts by course. However, the Continuing Education Department, in fiscal year 1987, began to keep an independent record of receipts which the department brought to the business office. The staff member who delivers the receipts to the business office, however, does not receive a receipt to verify total receipts delivered. Thus, there is no means of determining whether receipts recorded by the department are in agreement with those deposited by the business office. Also, on occasion, the business office transfers continuing education receipts to other accounts without providing the Continuing Education Department with a copy of the transfers. Therefore, discrepancies between the records continue, in spite of the Continuing Education staff's additional recording efforts.

Because adequate documentation of transactions is essential to good internal control, the business office must provide the Continuing Education Department staff with the information they need to reconcile their records. Since these receipts are collected outside the business office, additional steps are needed to provide adequate controls. An alternative to be considered is transferring the entire receipt collection process to the business office.

RECOMMENDATIONS:

5. The Continuing Education Department should deposit receipts in a timely manner.

MINNEAPOLIS COMMUNITY COLLEGE

6. The Continuing Education Department should receive a receipt for all funds delivered to the business office.
7. The business office should provide the Continuing Education Department with copies of business office transactions which affect continuing education receipt records.

Receipts collected in the business office are not deposited in a timely manner.

In order to properly safeguard receipts, they must be stored in a secure place until they are deposited, which must be in a timely manner. Business office receipts are not always deposited on a daily basis. Minneapolis Community College deposit forms showed examples of receipts which were held for several days before deposit. Minn. Stat. Section 16A.275 and Department of Finance policy 06:06:01 require agencies to deposit receipts totaling \$250 on a daily basis, unless they have received a waiver from the Department of Finance. Because the total of receipts held by the college exceeded the statutory maximum, these receipts should have been deposited on a daily basis.

Business office receipts are to be properly stored in a vault. However, certain receipts are not brought to the business office in a timely manner, and therefore are not adequately safeguarded. Specifically, the general maintenance worker 3 keeps receipts from a vending machine in her possession overnight. After collecting these receipts, which generally consist of approximately \$65 in coins, the worker exchanges the coins for currency at the bookstore. The receipts are not brought to the business office on the day they are collected. Rather, the worker keeps the currency overnight and brings the money to the business office on the following day. These receipts could be brought to the business office on the day they are collected.

RECOMMENDATION:

8. All business office receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Controls to ensure that the Minneapolis Community College collects all tuition are inadequate.

MCC serves a large number of students in who receive financial aid. Numerous students are unable to pay their tuition when it is due. Students who are in special situations--for example, students who cannot pay their tuition and will not receive their financial aid payments before classes start--receive a deferment which allows them to attend class until they can pay their fees. These students' names remain on the class lists which are distributed to professors. In contrast, students who do not pay their fees and do not qualify for deferments are dropped from the class lists. The Minneapolis Community College does not have controls to ensure that students who are dropped for nonpayment of tuition do not continue to attend class and earn grades.

MINNEAPOLIS COMMUNITY COLLEGE

The primary control to ensure that students pay for their education is to drop their names from class lists. The students are sent notices at that time which informs them of being dropped from the class for nonpayment. This control is easily circumvented at the Minneapolis Community College. If the students continue to attend classes after being dropped, the professors manually add their names to the printed class list. At the end of the quarter, professors turn in grades for these students as well as for students who were properly enrolled in the class. These students are not prevented from registering for classes in subsequent quarters. In fact, these students may never pay for any of the classes they have attended.

MCC staff point out that these students cannot obtain transcripts showing their grades unless they pay the tuition they owe. Even though this is true, these students are, in effect, receiving unauthorized loans from the state. Permitting these students to "go now, pay later" is unfair to students who obtain actual loans to pay for their education. Controls could be improved to provide students with follow-up notices if they continue to attend class without paying. Also, any student who receives a grade, but does not pay, could be billed and subjected to normal bad debt collection practices.

RECOMMENDATION:

9. Minneapolis Community College should require the timely payment of tuition from students who do not qualify for deferments. The college should develop a collection policy which will ensure that students pay tuition due.

"Nonsufficient funds" (NSF) check controls are inadequate.

Sometimes, students pay MCC by check, but do not have sufficient funds available in their personal checking account. The bank then returns the check to MCC without payment, and MCC must pursue collection of the amount from the individual. Current MCC procedures for "nonsufficient funds" (NSF) checks need improvement in both collection efforts and recordkeeping.

NSF checks are recorded in a manual ledger by business office staff. The student is then notified of the bad check and asked to satisfy the debt with a payment in cash or by money order. A "hold" is also placed on the student's transcript. The "hold" is signified on a piece of paper attached to the transcript and will deny the student access to the transcript until the college is paid. The college also retains a file of "hold" cards for all students owing the college funds. The student is, however, allowed to continue attending class and is shown as in "paid status" on the student registration system. Thus, the student's name appears on the printed class lists and the professor proceeds to issue the student a grade.

If the student pays the debt, the initial entry is crossed off on the manual ledger. The payment is then handled through the "hand" receipt process, discussed in recommendation #4. The "hold" is removed from the

MINNEAPOLIS COMMUNITY COLLEGE

student's transcript and payment is noted on the "hold" card, but the card is retained in the file. If the debt remains unpaid for several months, the business office staff essentially write it off. The write-off process is done periodically during the year. For example, in July 1985 nearly \$6,000 of bad checks tendered since July 1984 were written off. The write-off process consists of crossing off the initial entry on the manual ledger and entering a revenue adjustment transaction on the statewide accounting system. Despite this write off, the "hold" remains on the student's transcript, unless payment is subsequently received.

The effectiveness of the NSF check collection process could be improved. This is demonstrated by the large amount written off in 1985. The principle control under the current procedures is the "hold" on the student transcript. However, this control may be ineffective for a number of reasons. We found that some "hold" cards had been thrown away and that the process was not up to date. The college staff expressed doubts about the reliability of the process. In addition, the legality of the "hold" process is questionable. The state Data Practices Act may compel the college to distribute student transcripts, despite any unpaid debts.

We believe that a more effective means of recovering payment on NSF checks would be to utilize a process similar to the one we discuss in recommendation #9 for unpaid tuition. Rather than using the "hold" process, the student would be removed from "paid status" in the student registration system. A more aggressive collection process could then follow. Also, the college needs a more sophisticated recordkeeping method for their accounts receivable. Improved records would aid in aging receivables and timing follow-up notices and other collection efforts. Finally, the college could adjust statewide accounting revenues on a more timely basis for NSF checks. Department of Finance Operating Policy and Procedure 06:06:02 requires that deposits be reduced immediately for NSF checks. Delays in recording this information results in inaccurate data on the statewide accounting system.

RECOMMENDATION:

10. The Minneapolis Community College should revise its "non-sufficient funds" (NSF) recording procedures to ensure that adjustments to receipts are recorded on the statewide accounting system in a timely manner and that repayments of NSF checks are accurately recorded. Students who pay tuition with NSF checks should be removed from paid status.

The Minneapolis Community College check cashing fund exceeded authorized levels.

Minneapolis Community College maintains a check cashing fund pursuant to Minnesota Community College System Policies and Procedures VII. The college system policy authorizes the college to establish a check cashing fund of up to \$3,000 with profits from the college's Auxiliary Enterprises Account. The purpose of the check cashing account is to make change for student aid checks used in paying general fees.

MINNEAPOLIS COMMUNITY COLLEGE

Minneapolis Community College normally had \$2,000 in its check cashing fund. However, on March 25, 1987, college staff transferred an additional \$10,000 from the Auxiliary Enterprises Account into the college check cashing fund. College staff explained that the additional money was necessary to make change for the many student Minnesota grant checks which needed adjusting. Although this is an allowable use of the check cashing fund, the Minneapolis Community College staff is exposing an excessive amount of money to risk by using the fund for this purpose. Most colleges make change for Minnesota grant checks by issuing the student a refund check pursuant to Community College System Policy V 03.07. Rather than transferring unauthorized and excessive amounts of cash into its check cashing fund, Minneapolis Community College staff could make change for the grant checks by following the standard procedure of issuing the student a refund check.

RECOMMENDATION:

11. Minneapolis Community College should limit the amount of cash in its check cashing fund to the authorized \$3,000 level.

Imprest Cash

Minneapolis Community College maintains an imprest cash account authorized by the Community College Chancellor's Office. The purpose of the account is to provide a convenient method to pay specified expenses which cannot readily be paid through the statewide accounting system. The use of this imprest cash account is subject to comprehensive policies and regulations of both the Minnesota Community College System and the Department of Finance. These policies identify the types of payments which can be made from imprest cash, provide for temporary loans to the account, and furnish routine accounting instructions.

Minneapolis Community College has misused its imprest cash account. Specifically, MCC has disregarded guidelines concerning authorized disbursements, account reimbursement, and maximum borrowing limits. We identified the following problems concerning the use of the imprest cash account:

- Unauthorized use of the account.
- Excess and unauthorized borrowing.
- Imprest cash funds deposited in a noninterest bearing account.
- Inadequate controls over travel and payroll advances.

The MCC imprest cash account has been used to pay expenses which are not authorized by policy.

During fiscal year 1986, Minneapolis Community College staff disbursed approximately \$25,000 to dislocated workers from the college's imprest

MINNEAPOLIS COMMUNITY COLLEGE

cash account. The account also was used to pay expenses, such as subscriptions and annual dues, which can and should be paid through the statewide accounting system. The authorized level of funding for the Minneapolis Community College imprest cash account is insufficient to allow for payments to dislocated workers or payment of ordinary statewide accounting expenses from this account. This caused the fund to exceed its authorized level as discussed in recommendation #14.

Minnesota Community College System Policies and Regulations authorizes colleges to use the imprest cash account only to pay specific types of expenses. However, colleges may obtain authorization and funding to pay other types of expenses if they submit their requests to the board office and the Department of Finance.

RECOMMENDATIONS:

12. Minneapolis Community College staff either should discontinue the practice of reimbursing dislocated workers from imprest cash or request approval and funding to make these payments.
13. Imprest cash disbursements should be restricted to Minnesota Community College System allowable expenditure categories.

Loans to the imprest cash account have exceeded authorized levels.

Loans to the imprest cash account have exceeded authorized levels and have not been repaid in a timely manner. The basic authorized amount of the MCC imprest cash account was \$13,500 in fiscal year 1984 and \$20,000 in subsequent fiscal years. During peak registration periods, MCC is authorized to borrow additional funds from the Auxiliary Enterprise Fund and to receive temporary advances from the State Treasury. Board policy requires the college to repay the loans "after the peak refund period ends each quarter."

MCC borrowing from the Auxiliary Enterprise Fund has exceeded authorized levels. During fiscal year 1984 and fiscal year 1985, Minneapolis Community College was authorized to borrow \$1,500 and \$10,000, respectively, from the Auxiliary Enterprise Fund. During both fiscal years, MCC borrowing exceeded authorized levels. The MCC staff obtained Auxiliary Enterprise Fund loans totaling \$3,000 in fiscal year 1984, and \$14,000 in fiscal year 1985, even though the Minnesota Community College administrative procedure for imprest cash states that the authorized level of borrowing from the Auxiliary Enterprise Fund "cannot be exceeded under any circumstances."

Moreover, the MCC staff has used the Auxiliary Enterprise Fund to provide other unauthorized subsidies to the imprest cash account. Two authorized uses of the imprest cash account are disbursements to pay postage and the establishment of a \$200 change fund. The MCC has used the Auxiliary Enterprise Fund, rather than the imprest cash account, for these purposes. During fiscal year 1985, MCC disbursed \$24,300 from the Auxiliary Enterprise Fund to pay postage. Currently, MCC's change fund, which contains

MINNEAPOLIS COMMUNITY COLLEGE

\$600 rather than the authorized \$200, is comprised entirely of Auxiliary Enterprise Fund money.

The MCC staff has not repaid loans to the imprest cash account in a timely manner. For example, during fiscal year 1987, the imprest cash account received a \$9,000 Auxiliary Enterprise Account loan. The MCC staff did not repay this loan for eight months. During the same period, MCC also received a \$25,000 temporary advance. The temporary advance was not repaid for seven months. Minnesota Community College System policies require the repayment of loans at the earliest possible date in order to maximize interest income. During the extensive periods the money remains in the MCC imprest cash account, interest income is lost. MCC imprest cash is deposited in a noninterest bearing bank account. During fiscal year 1986, the average ending cash balance in the imprest cash account was \$16,344. The ending cash balance for January 1986 exceeded \$34,000. The state is losing revenue on these funds. The Minneapolis Community College staff should investigate the possibility of depositing these funds in an interest bearing account.

RECOMMENDATIONS:

14. Minneapolis Community College should restrict borrowing to authorized amounts. Loans should be repaid on a timely basis.
15. The Auxiliary Enterprise Fund should be used in accordance with applicable guidelines. It should not be used to subsidize the imprest cash account, except as authorized.
16. Minneapolis Community College should review the possibility of depositing imprest cash funds in an interest bearing account.

Controls over travel and payroll advances are inadequate.

MCC controls over travel and payroll advances are inadequate. Specifically, the following problems exist in the travel and payroll areas:

- Travel advances are not repaid in a timely manner.
- An employee received a travel advance after the travel occurred.
- MCC has not cancelled a payroll advance which has been outstanding since fiscal year 1980.
- The imprest cash "pay order" form does not provide sufficient information concerning advances.

Statewide accounting policies require the settlement of travel advances within 30 days. Testing of 21 MCC travel advances showed that only one advance had been settled within the required time period. One example, especially illustrates the untimeliness of advance settlements. In this case, an advance which was issued on November 6, 1985, was not repaid

MINNEAPOLIS COMMUNITY COLLEGE

until October 29, 1986, i.e., almost a year after the advance was issued. The untimeliness of advance settlements places an additional burden on the imprest cash account.

Another example of the inadequate controls over travel advances is the granting of an advance to an employee nearly two months after the trip had occurred. The payment of such advances, which are technically reimbursements, is not authorized by the Minnesota Community College imprest cash fund policy.

In addition, MCC has not cancelled a payroll advance which has been outstanding since fiscal year 1980. The April 3, 1980, advance no longer seems to be a collectible receivable and could be written off in accordance with Minn. Stat. Section 10.12.

Finally, MCC does not use the standard employee expense report form for travel advance requests. The imprest cash "pay order" form used instead is insufficient to ensure that employees provide complete travel advance information. For example, several MCC employees did not include the trip date on the request form. In another case, an employee requested \$315 for "trip expenses," but did not break the \$315 into separate expense categories (for example, meal expense) as required by standard statewide accounting policies. As a result, it is impossible to determine whether the amount advanced is in accordance with applicable expense guidelines. The standard state Employee Expense Report is better structured to capture all necessary information. The standard report also requires employees to attest to the accuracy of the claim.

RECOMMENDATIONS:

17. Minneapolis Community College should develop procedures to ensure that travel advances are repaid in a timely manner.
18. Minneapolis Community College should cancel the April 3, 1980, bad debt in accordance with Minn. Stat. Section 10.12.
19. Minneapolis Community College should require employees to use the standard Employee Expense Report form when requesting travel advances.

Bookstore

The MCC bookstore operates out of the Auxiliary Enterprise Fund for the benefit of MCC and Metro State University students. The bookstore sells new and used books, clothing, and supplies. For fiscal year 1986, total sales were \$481,000. The bookstore also buys used books from students and resells them to a book company. The bookstore had several problems, including:

- an apparent shortage of over \$2,000 in the book buyback account;

MINNEAPOLIS COMMUNITY COLLEGE

- excessive cash allocation to the two imprest cash accounts maintained by the bookstore--a buyback account and change fund;
- no perpetual inventory records; and
- absence of a record retention schedule.

Buyback account recordkeeping needs to be improved.

The buyback account operates as a revolving account in that cash is paid to students for used books and checks are received for used books sold to the book company. The books sold to the book company are sent with an invoice prepared by a bookstore employee.

The buyback account has an unexplained shortage of \$2,214. Business office records showed authorized allocations to the bookstore of \$6,922. Cash counts verified \$3,108 cash in the change and buyback accounts. Accounts receivable from the book company totaled \$1,423. An adjustment of \$177 for an error in depositing was made, but an unreconciled shortage of \$2,214 remained. The majority of the shortage is due to a \$1,700 check which was received from the business office and cashed, but never recorded in the bookstore records. No one could explain the missing \$1,700 in cash. Determination of the remaining shortage is difficult because the bookstore records for accounts receivable and the buyback account were poor.

Present procedures do not provide adequate protection over the book buyback assets. Inadequate records are maintained and the integrity of this operation cannot be ensured. Students are paid cash for books repurchased by the college. The transaction is recorded only by a pencil notation on the inside of the book cover. No purchase listing is maintained and the transaction is not recorded on the cash register. Purchased books are kept in open boxes and periodically submitted to the book company for reimbursement. Cash on hand is not reconciled to the authorized amount. Actually, the lack of adequate records severely hampers the ability to account for any discrepancies.

Controls must be improved to ensure that cash is used only for buyback purposes and that the fund is properly reimbursed for all books purchased. Improved records would include a listing of all book purchases. The listing could indicate the book title, amount paid, and be signed by the student. Payments would be recorded on the cash register. A comprehensive reconciliation would be prepared on a daily basis by an independent employee or reviewed by someone independent from the book buyback operation. The reconciliation would compare the purchase listing, cash register reading, cash on hand, and book inventory.

Presently, the buyback account is maintained year-round for availability to MCC and Metro State University students. This continuous operation of the fund contributes to the problem of an unreconciled balance. Limiting the buyback period would provide time to reconcile the fund to the allocated amount. Most community colleges have buyback accounts that operate for one week at the beginning and end of a quarter. Until November 1986,

MINNEAPOLIS COMMUNITY COLLEGE

MCC limited the buyback period to a few weeks each quarter and the book company handled the buying of books with their own cash and personnel. A return to this practice would eliminate the need for an MCC buyback account.

RECOMMENDATIONS:

20. The unreconciled balance of \$2,217 in the book buyback account should be determined and properly adjusted.
21. Book buyback records should be improved as follows:
 - books purchased should be listed;
 - the purchase transactions should be recorded on the cash register; and
 - the buyback activities should be reconciled to the authorized fund amount.
22. The continuous operations of the buyback fund should be evaluated and possibly limited to a few weeks each quarter.

Authorized cash amounts to the bookstore need evaluation.

The change fund has an authorized amount of \$2,500 which is used to operate the cash registers. The bookstore normally operates one register requiring \$100 as a beginning balance. During periods of peak sales three additional cash registers each requiring \$100 are used, making a total beginning balance of \$400.

The buyback account operates through a fifth cash register which may require the total authorized amount of \$4,422 during peak buyback periods. In nonpeak periods, which require a much smaller beginning balance, the excess cash is not properly deposited into the Auxiliary Enterprise Fund.

The bookstore's combined authorized imprest cash amount of \$6,922 is greater than the daily need. Excessive balances in the change fund and buyback account cause a loss of interest income and increase the potential for funds to be taken for unauthorized uses.

RECOMMENDATION:

23. The authorized amount of \$6,922 should be evaluated to determine its necessity. Excess cash at the bookstore should be deposited in the Auxiliary Enterprise Fund.

MCC needs to improve the bookstore's system of inventory control.

The bookstore recently installed a computer system for use as a management tool in the book ordering process. Computer records contain purchases,

MINNEAPOLIS COMMUNITY COLLEGE

receipts, and prices of books. Upon completion of an annual physical inventory count, computer records are compared to physical counts in determining which books to order. Sales of books are not recorded on the computer; therefore, no comparison of physical count to a perpetual inventory record can be made. A perpetual inventory system would show running totals of the units on hand and their value with all increases and decreases recorded as they occur. The system would also provide a basis for monitoring the propriety of physical inventory on hand.

RECOMMENDATION:

24. The MCC bookstore should establish a perpetual inventory system and complete annual comparisons to physical inventory counts.

MCC needs to include bookstore financial records on a retention schedule.

Currently, the daily cash reports and void slips are kept at the business office according to the record retention schedule for auxiliary enterprises. Other records, such as the change fund ledger, buyback invoices, and bookstore pay order requests have been kept by the bookstore since 1979. A record retention schedule does not exist for the MCC bookstore. According to Minn. Stat. Section 138.17 all financial records need to be controlled by a record retention schedule.

RECOMMENDATION:

25. A record retention schedule should be established for the MCC bookstore.

Financial Aid

MCC awards state and federal student financial aid. Awards are approved by the financial aid office and funds are disbursed by the business office. For the fiscal year ended June 30, 1986, MCC awarded federal financial aid of \$1,215,884 in Pell grants, \$220,101 in College Work Study grants, and \$26,200 of NDSL loans. The federal aid is maintained in a separate bank account and supported by a manual ledger. The federal financial aids area has weaknesses in internal control procedures, accounting for NDSL funds, and maintaining acceptable federal cash balances.

Nonfederal financial aid is also received through the Minnesota Higher Education Coordinating Board and various Indian tribes. Some accounting and control problems also exist with these funds.

Student financial aid checks are not compared to source documents before being signed.

The source document used by the business office to write student financial aid checks are cash disbursement sheets. These forms are prepared by the financial aid office and list each students name, type of award, and award amount. Each sheet is signed and dated by the financial aid director and

MINNEAPOLIS COMMUNITY COLLEGE

sent to the business office. An accounting clerk in the business office determines the amount of tuition and any other charges the student owes the college and deducts it from the total award. All information is entered onto the cash disbursement sheet, and the employee writes a check to the student for the net amount. The checks, cash disbursement sheets and all other supporting documentation are given to the senior accounting officer who signs the checks. The signed checks are returned to the clerk and prepared for disbursement.

The senior accounting officer does not routinely compare the financial aid checks to the authorized cash disbursement sheets. Strong internal controls require that before checks are signed, the payee and the amount of the check be verified to the supporting documentation. By not performing this procedure, errors or irregularities may go undetected.

RECOMMENDATION:

26. Student financial aid checks should be verified to the supporting cash disbursement sheets before being signed.

Interest earned on NDSL money is not being used for NDSL activities.

MCC maintains an interest bearing checking account for the receipt and disbursement of most federal student financial aid money. The account earned interest of \$5,470 in fiscal year 1986 and \$8,085 through March 1987. On June 30 each year, the interest earned on the account is transferred into the MCC Auxiliary Enterprise Fund and is used to offset expenses in financial aid related areas.

NDSL funds are maintained partially in the checking account. NDSL loan repayments are deposited into the account and new loans are disbursed from it. At June 30, 1986, \$23,380 of NDSL money was in the account. In addition to NDSL funds in the federal checking account, MCC maintains a money market account consisting exclusively of NDSL funds. Interest earned on this account is posted to the NDSL account.

Federal regulations, 34 CFR Chap. VI (7-1-85 edition), Section 674.8, Subd. 7, require that all interest earned on NDSL funds be used for the the NDSL program. The NDSL portion of the interest income earned on the federal checking account is transferred into the college's Auxiliary Enterprise Fund as part of the checking accounts total interest income, and is not being used for NDSL activities.

To correctly account for all interest earned on NDSL funds, the total balance of NDSL funds could be deposited and maintained in the money market account. When awards are granted to students, cash could be transferred to the checking account at the time of disbursement. However, if the NDSL funds are to remain partially in the federal checking account, the amount of interest earned on the NDSL portion must be manually computed and posted to the NDSL account.

MINNEAPOLIS COMMUNITY COLLEGE

RECOMMENDATION:

27. All interest earned on NDSL money should be properly credited to the NDSL accounts.

Internal accounting records are not being updated on a timely basis for NDSL collections.

NDSL collections are administered by the Community College System office. Students send their loan payments directly to the system office and each student's account is updated to reflect the payment. On a quarterly basis, the loan collections are sent back to the college which originally loaned the money. The funds may then be loaned to other eligible students.

MCC deposits their share of loan collections into the federal checking account. However, the internal accounting records are not updated for the collection for several months. Initially, the collections are recorded into a suspense account with several other types of funds. MCC then waits for approximately six months, until it receives information from the system office which breaks down the collections into principal and interest amounts, before recording them in the NDSL account. Federal regulations require that both principal and interest collections be credited to the NDSL account, so the delay in updating the accounting records is unjustified.

MCC has not received an NDSL federal capital contribution in several years and depends on collections for making future loans. It is therefore important that all available cash be reflected in the NDSL account. By not immediately crediting the account, it is undervalued on the MCC ledgers, and this may cause eligible students to be denied loans.

RECOMMENDATION:

28. MCC should credit the NDSL account immediately upon receipt of NDSL loan collections.

Excessive federal cash balances are maintained in the student financial aid checking account.

MCC utilizes one checking account for the receipt and disbursement of federal student financial aid. The amount of federal cash needed is determined by the business office in consultation with the financial aid director. Funds are then requested and deposited into the financial aid checking account from which financial aid checks are written and disbursed to students.

Department of Treasury Circular 1075 Section 205.4 states:

Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the recipient

MINNEAPOLIS COMMUNITY COLLEGE

organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization . . .

MCC is maintaining an excessive balance of federal funds in the federal financial aid checking account. Between September 1986 and January 1987 the average month end cash balance was \$160,870. The bank pays interest on the average cash balance in the account but the rate paid is less than the rate the federal government must pay to borrow the funds. In addition, MCC transfers interest earned on the account into the college's auxiliary fund, resulting in increased cost to the federal government.

Excessive cash balances can be reduced by requesting smaller amounts of cash on a more timely basis. The requests for cash should be better correlated with the actual disbursement dates. Since February 1987, MCC has been on the "Automatic Clearing House" request method. This method allows MCC to request funds by telephone, and the cash is deposited into the account within three to four days.

RECOMMENDATION:

29. MCC should limit federal cash requests to actual, immediate requirements and request money as frequently as necessary to eliminate excessive cash balances in the federal financial aid checking account.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Unawarded MHECB checks are not being returned to MHECB on a timely basis.

State student grant checks are prepared by Minnesota Higher Education Coordinating Board (MHECB) and sent to MCC for disbursement to eligible students. In addition to the checks, MHECB sends an award payment roster which identifies the students who are to receive the checks. The financial aid office verifies that the students on the listing are entitled to the grants and issues check release forms. The students then bring the release forms to the business office and the checks are awarded.

The MHECB financial aid manual requires that the award payment roster and any unawarded checks be returned to MHECB within 30 days of receiving them. In April 1987, unawarded fall and winter quarter checks were still on hand in the business office. The college had received inquiries from MHECB regarding the status of the checks and were warned that future payments from the program could be withheld.

Because MHECB has limited funds available, it is important that unawarded checks be returned so that the funds may be reissued to other eligible students. In addition, without a timely review of the checks on hand, there is an increased possibility of the checks being lost or stolen.

MINNEAPOLIS COMMUNITY COLLEGE

RECOMMENDATION:

30. MCC should develop and implement procedures to ensure that state grant checks are reviewed regularly and that unawarded checks are returned to MHECB within the required time period.

PRIOR RECOMMENDATION NOT IMPLEMENTED: College Work Study payroll rosters need to be reviewed and approved by the financial aid office before the checks are disbursed.

All additions and deletions to the College Work Study (CWS) payroll are initially approved by the financial aid office. A summary of all additions and deletions is prepared and sent to the CWS payroll clerk. The payroll clerk prepares a Student Payroll Appointment Change form, signs the form and sends it to the Community College System office where students are entered or deleted from the payroll. Each pay period, time reports are submitted to the payroll clerk and the number of hours worked is recorded on a preprinted payroll roster. The payroll roster is signed by the payroll clerk and sent to the Community College System office where it is used to prepare the payroll checks. The payroll clerk makes a copy of the payroll roster and sends it to the business office to use as a sign-off sheet as checks are disbursed to students.

Because the payroll clerk is both preparing and authorizing the student payroll, errors or irregularities could occur and not be detected. Strong internal controls require that someone other than the payroll clerk should review and approve the payroll roster. The financial aid office is better suited to authorize the payroll.

RECOMMENDATION:

31. The financial aid office should review and approve the student payroll rosters.

MCC is not always properly maintaining Bureau of Indian Affairs (BIA) financial aid accounts for the students.

The BIA account is one of many that comprise the All-College Account at MCC. The account is used as a clearing account in order to receive, deposit, and disperse various financial aid to the students. Each recipient of BIA aid is notified by their respective tribes of their awards. The check made out to the student is sent to the college. The student either endorses the check to the college or has assigned MCC the power of attorney. The college deposits the money, and credits the student's account for the amount. Prior to disbursing any funds to the student the college first takes out an amount equal to any outstanding balances the student owes the college such as tuition or loans. Any residual amounts are disbursed to the student upon request. All of this activity is recorded on the students' ledger cards.

For the year ended June 30, 1987, there were approximately 35 individual accounts with unresolved balances, both positive and negative. Most of

MINNEAPOLIS COMMUNITY COLLEGE

the outstanding balances originated from transactions during the time period 1982-1984. During this period the program operated outside the authority of the financial aid office. Some accounts were simply overdrawn, others showed money being disbursed with nothing being deposited, and others still have money in the account while the student is no longer enrolled. Sufficient documentation does not exist to resolve all accounts. While these same problems no longer exist, there has been no attempt to resolve the former outstanding balances.

RECOMMENDATION:

32. MCC should review the disposition of all outstanding balances with the appropriate tribes and repay any determined amounts.

Fixed Assets

PRIOR RECOMMENDATION NOT IMPLEMENTED: Minneapolis Community College is not adequately safeguarding its fixed assets.

Since March 1985, MCC has done nothing to control or monitor their fixed assets. Essentially, no one has had the responsibility for recording the transactions on SWA or determining the actual existence of the assets. MCC's lack of control over their assets leaves them highly vulnerable to theft. Three main deficiencies contribute to this problem:

- The last complete physical inventory taken on campus was in March 1985.
- The college has not updated its fixed asset records for additions, deletions, and transfers. As a result, assets are currently shown as being located in buildings razed several years ago and are not shown as located in recently acquired buildings.
- The college has yet to utilize the Fixed Asset Record Management System (FARMS), a computerized system of the state's fixed assets.

The Department of Administration (DOA) in conjunction with the development of the FARM System has delegated the responsibility of the program to the agencies. These responsibilities include:

- complying with all policies and procedures set forth by the DOA;
- assigning personnel to be responsible for the management of the assets in his or her custody; and
- coordinating the record management of the assets in their possession. The DOA also requires a complete physical inventory every two years.

MINNEAPOLIS COMMUNITY COLLEGE

An adequate system of internal control includes the safeguarding of assets against loss. This does not just refer to the physical security of assets, but also to the protection against loss from intentional and unintentional errors in processing transactions.

By instituting a system to safeguard assets, MCC would have assurance that their assets are being protected. The system should provide sufficient controls to prevent errors or irregularities from occurring without being detected. It would also assign responsibility for assets to various employees so that these individuals would be accountable for any discrepancies.

RECOMMENDATIONS:

33. MCC should take a complete physical inventory of all assets at their campus and update their records accordingly.
34. MCC should develop a system (preferably FARMS) to adequately safeguard their assets. This system should control additions, deletions, and transfers of assets as well as assigning responsibility for these functions.

MINNEAPOLIS COMMUNITY COLLEGE

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

There is no evidence maintained in student financial aid files that student academic good standing was checked and verified before grants and scholarships are approved.

1. MCC should add a note to the award worksheet and initial it when academic good standing is verified.

RECOMMENDATION IMPLEMENTED. In September 1981, MCC implemented a new form which requires that academic good standing be verified.

There is no evidence that Minnesota grants and scholarships are considered by MCC when performing a student need analysis for financial aid awards.

2. Award letters should be prepared by the financial aid department and signed by the student for all Minnesota grant and scholarship recipients.

RECOMMENDATION IMPLEMENTED. In September 1981, MCC revised their award letters to include all Minnesota grant and scholarship awards.

Check release forms are not systematically filed in the business office.

3. MCC should implement a systematic filing system in the business office for check release forms.

RECOMMENDATION WITHDRAWN. The issue was reconsidered and the recommendation was withdrawn. The forms are not needed in the business office.

There is a need for written policies and procedures for student payroll and financial aids.

4. MCC should continue to develop and document policies and procedures sufficiently detailed to cover all areas of financial aid including student work-study.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC completed written policies and procedures for student payroll and financial aids.

Current internal control procedures do not provide an independent verification that students who are receiving work-study funds have been approved by the financial aids officer.

5. MCC should implement a procedure which would provide the financial aid officer with a list of the student payroll for verification of approval.

MINNEAPOLIS COMMUNITY COLLEGE

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendation #31.

Work-study students are not submitting their time reports on a timely basis.

6. MCC should require students to submit their time reports at the end of each pay period for review and authorization by their respective work-study supervisors.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC instituted a written policy that requires students to submit their time reports at the end of each pay period.

There are currently no procedures in effect at MCC which would detect a student who had withdrawn from the school and continued to work a state work-study job.

7. The financial aid office should be notified of any change in student status of financial aid recipients, of which college officials are aware, that might affect student eligibility for continued financial aid.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC instituted a policy that requires the financial aid office be notified of any change in financial aid student status which might affect eligibility for continued financial aid.

No students were employed by off-campus employers in the State Work-Study Program during fiscal year 1980, as intended under Minn. Stat. Section 136A.231.

8. Sustained effort should be made to place state work-study students with off-campus employers. The effort should also be documented.

RECOMMENDATION WITHDRAWN. The issue was reconsidered and the recommendation was withdrawn. MCC does not have a student work force large enough to even meet their own needs.

During fiscal year 1980, there was no evidence to substantiate the eligibility of ten state work-study recipients.

9. MCC should reimburse the State Work-Study Program for the \$5,500 in student employment wages charged to the program.

RECOMMENDATION WITHDRAWN. Because of the time delay and lack of documentation, we could not determine whether any action was taken. Further pursuit of this issue would be ineffectual.

MINNEAPOLIS COMMUNITY COLLEGE

The financial aid office was not aware of high school students receiving scholarships from MCC in fiscal year 1980.

10. The financial aid office should be regularly informed of scholarship awards made by the Dean of Students and any other officials at MCC.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC instituted a policy that the financial aid office be informed of scholarships awarded by other MCC officials.

Six scholarship accounts totaling \$1,878 were not used during fiscal year 1979 or 1980 because the Financial Aid Office was not aware of their existence.

11. The financial aid office should be regularly and systematically informed of all scholarship monies available at MCC.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC instituted a policy that requires the financial aid office be informed of all scholarship monies available at MCC.

The criteria for awarding scholarship and loan funds is not well-documented for all types of aid.

12. Eligibility requirements, restrictions on amounts and purpose, and loan repayment procedures should be formally established for all locally funded student loan and scholarship accounts under the administration of MCC.

RECOMMENDATION IMPLEMENTED. In June 1985, MCC instituted procedures for awarding scholarships and loans.

There is no formal application file maintained for four of the five local loan funds.

13. A formal application form similar to that of the emergency loan fund should be adopted for all loan funds. Evidence that eligibility has been reviewed should be documented and the application should be kept on file in the office awarding the loan.

RECOMMENDATION IMPLEMENTED. In September 1981, MCC instituted procedures for the local loan funds which include formal application forms.

The physical layout of the business office should be changed to improve security over cash items located within the business office.

14. MCC should change the physical layout and security to prevent access to the business office by unauthorized persons.

RECOMMENDATION WITHDRAWN. The issue was reconsidered and the recommendation was withdrawn. We no longer believe the physical layout to be a problem.

MINNEAPOLIS COMMUNITY COLLEGE

Some check release forms are not signed by students at the business office.

15. MCC should take steps to ensure that financial aid checks are not disbursed until the check release form is signed by the student in the presence of business office personnel and initialed by the person witnessing the signature and disbursing the check.

RECOMMENDATION IMPLEMENTED. In September 1981, MCC instituted procedures that require all students to sign their check release form at the business office before they receive their check.

Additional procedures are necessary to ensure that financial aid checks are disbursed to students or returned to MHECB within the time required by MHECB regulations.

16. MCC should develop and implement procedures to ensure that financial aid checks are reviewed regularly and that unclaimed checks are returned to MHECB within the required time period.

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendation #30.

Controls over unpaid fee statements need improvement.

17. MCC should develop a control account or alternative procedures to adequately safeguard unpaid fee statements.

RECOMMENDATION IMPLEMENTED. In the fall of 1984, MCC started using a computerized registration system. Deferments are coded on the system and a current listing of deferments can be generated at any time.

18. Procedures should be developed to review deferments on a regular basis before the end of each quarter. This could be accomplished by automatically cancelling deferments by a specified date each quarter unless specific action is taken to extend the deferment.

RECOMMENDATION IMPLEMENTED. In the fall of 1984, MCC began using a computerized registration system. Deferment reports are generated automatically three times per quarter or on demand. However, see current recommendation #9 for another concern with unpaid tuition.

19. Deferments which extend beyond the end of a quarter should be reassessed before the student is allowed to register for subsequent quarter classes and obtain additional deferments.

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendation #9.

MINNEAPOLIS COMMUNITY COLLEGE

Employees in the business office perform incompatible functions involving the receipt, disbursement, recording and reconciliation of cash transactions.

20. Responsibilities within the business office should be reevaluated and duties reassigned among existing staff where necessary to strengthen control.

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendation #1.

MCC's state fixed asset inventory listing has not been updated.

21. MCC should continue to work with Materials Management Division personnel to complete the reconciliation of the inventory and make the necessary adjustments so that the record of fixed assets reflects the actual assets on hand.

RECOMMENDATION NOT IMPLEMENTED. See current finding and recommendations #33-34.

Donations totaling \$800 were deposited in the foundation treasury when in prior years the donations were deposited in scholarship accounts in the All College Fund.

22. College officials should determine if the donations were made to the college and if so, deposit the monies in the All College Fund.

RECOMMENDATION IMPLEMENTED. On August 24, 1981, the college's foundation repaid MCC \$800. MCC accordingly deposited this money in the appropriate accounts.

The preparation of the foundation financial statements and maintenance of the foundation checkbook are performed by an official of MCC.

23. MCC employees should not be involved in the recordkeeping and financial statement preparation of the foundation.

RECOMMENDATION WITHDRAWN. The college has entered into a contract which permits providing these services to the foundation.



1501 Hennepin Avenue
Minneapolis, MN 55403-1779
612/341-7000

January 5, 1988

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

Dear Mr. Asmussen:

This letter constitutes our formal written response to your findings and recommendations set forth in the report of the financial and compliance audit of Minneapolis Community College for the three years ended June 30, 1986.

Recommendation 1:

In order to prevent and detect future errors and irregularities, Minneapolis Community College personnel should properly separate receipts duties, demand staff accountability for the performance of assigned duties, and increase the level of supervision in the receipts area.

This recommendation will be implemented as follows:

- o Since the present position descriptions of the Business Office employees provide for an acceptable separation of duties, no changes will be made at this time. However, to ensure that each employee is following his/her position description, they will be required to keep a "daily log". This log will contain a description of tasks and the time used for their completion. The accounting supervisor and the new Business Manager will review these daily logs and compare them to the position descriptions to ensure that acceptable separation of duties are being followed. Adjustments may be made to these position descriptions if necessary.
- o The new position of Business Manager, Director V will be filled approximately February 15, 1988. The individual in this position will supervise the Business Office, Auxiliary Enterprises, Buildings and Grounds and Federal Grants.
- o All reconciliations will be reviewed and initialed by the Accounting Supervisor.
- o All Adjustments to the cash receipts, fee statements and reconciliations will be documented and approved by the Accounting Supervisor.

- o The Accounting Supervisor will attend supervision courses.
- o To Improve the status of the Accounting Supervisor, he will be given either a private office or be separated from other office employees in some manner.
- o The Business Office will be rearranged to increase efficiency and improve working conditions. This will also include upgrading of furniture and equipment.

Recommendation 2:

To ensure that future adjustments to cash receipts will be valid, the college should require supervisory review and approval of all adjustments to cash receipts. An independent person should reconcile individual and total cash receipts adjustments.

All adjustments to cash receipts will be documented and retained with the daily cash report. These documents will be reviewed and approved by the accounting supervisor. This document will contain the amount of the error, name of the individual whose transaction was incorrectly recorded, employee who made error and correction, the number of the transaction and receipts category. In addition, the accounting supervisor or an employee independent of the cash receipts function will reconcile individual and total cash receipt adjustments.

Recommendation 3:

Business office employees should use proper log on/off procedures and sign off the system after completing their transaction.

This recommendation can only be implemented on days when a limited number of transactions are entered. During peak registration this procedure would involve too much time to be efficient, especially when two or more Business Office employees are handling cash receipt transactions. Therefore, the college administration and the internal auditor feel that implementation of this recommendation is not advisable at this time.

However, the computer services division is developing a transaction coding procedure which will identify individual entries by employee system after the initial log on has been completed. It is anticipated that this new procedure will be implemented by July, 1988. Use of this procedure will satisfy the requirements of identifying the person responsible for each transaction.

Recommendation 4:

Minneapolis Community College should run the "hand" receipts through the cash register or implement other procedures which will improve controls over them.

All cash receipts will be rung through the cash register. A hand written "fee statement" will be filled out for all non-tuition receipts collected. This fee statement will be retained with the daily cash report information and used as a source document for reconciliation.

Recommendation 5:

The Continuing Education Department should deposit receipts in a timely manner.

The Continuing Education Department will be notified that they are not in compliance with the Department of Finance Policy regarding deposit of receipts. The Continuing Education Department will be required to deliver the receipts on a daily basis.

Recommendation 6:

The Continuing Education Department should receive a receipt for all funds delivered to the business office.

Upon receipt of cash and checks from the Continuing Education Department, the Business Office will add all items and retain the adding machine tape for documentation. In addition, a "Fee Statement" will be completed and the amount rung through the cash register. This fee statement will contain the type of fund, account, and amount received. A copy of this statement will be given to the Continuing Education Department employee as a receipt.

Recommendation 7:

The Business Office should provide the Continuing Education Department with copies of Business Office transactions which affect continuing education receipt records.

The Business Office will provide the Continuing Education Department with any documentation that affects their receipt records. In addition, better lines of communication will be established to reconcile any differences between these two departments concerning monies collected, transfer of funds, and records of individuals attending courses.

Recommendation 8:

All Business Office receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.

The Business Office will deposit receipts totaling \$250.00 on a daily basis. In addition, collections from vending machines will be brought to the Business Office on the day they are removed. These vending receipts will be rung through the cash register and a "fee statement" completed and retained as documentation.

Recommendation 9:

Minneapolis Community College should require the timely payment of tuition from students who do not qualify for deferments. The college should develop a collection policy which will ensure that students pay tuition due.

The College does request from faculty that students who are not on the class list be prevented from attending class. However, the faculty contract with the State of Minnesota does not allow the College to take action against a faculty member who refuses to comply.

It is a long standing procedure of the College to deny grades to students who have not paid tuition. Even if the instructor submits a grade for these students, the Records and Admissions Office does not forward these grades to the computer Center. This procedure prevents any student from receiving a grade without payment of tuition and fees.

A balance due list is compared to deferments. Those students not deferred are sent a form letter notifying them that they will be dropped for non-payment in three weeks. Students not responding are dropped.

Recommendation 10:

The Minneapolis Community College should revise its "nonsufficient funds" (NSF) recording procedures to ensure that adjustments to receipts are recorded on the statewide accounting system in a timely manner and that repayments of NSF checks are accurately recorded. Students who pay tuition with NSF checks should be removed from paid status.

A student will be removed from "paid status" in the registration system upon receipt of an NSF notice from the bank. The student will not be allowed to attend class until such time as cash or a money order is received. In addition, the course instructor will be notified in writing that the student should not be allowed to attend class, participate in class assignments, or receive a grade.

A more aggressive collection procedure will be established which will include additional contacts with the student, turning over the account to a collection agency and charging a \$15.00 fee for the NSF check return.

Improved record keeping will be established and will include an aging of receivables and timely follow-up notices as well as other collection efforts. Additionally, under no circumstances will debts be written off unless all reasonable collection methods have been exhausted and only upon approval of the President.

Lastly, the Business Office will adjust statewide accounting revenues on a more timely basis for NSF checks.

Recommendation 11:

Minneapolis Community College should limit the amount of cash in its check cashing fund to the authorized \$3,000 level.

Minneapolis Community College will limit the cash checking fund to \$3,000. Whenever feasible Business Office staff will make change for the grant checks by following the standard procedure of issuing the student a refund check.

Recommendation 12:

Minneapolis Community College staff either should discontinue the practice of reimbursing dislocated workers from imprest cash or request approval and funding to make these payments.

Minneapolis Community College will request approval to make these payments.

Recommendation 13:

Imprest cash disbursements should be restricted to Minnesota Community College System allowable expenditure categories.

This recommendation has been implemented. In the near future the Business Office will follow imprest cash policies and procedures more closely.

Recommendation 14:

Minneapolis Community College should restrict borrowing to authorized amounts. Loans should be repaid on a timely basis.

The Accounting Supervisor will initiate a procedure that will replenish the imprest cash fund every 2 weeks. Also when it becomes necessary to borrow funds from the Auxiliary Enterprise account, the College will not exceed the authorized level and all funds borrowed will be repaid promptly.

Recommendation 15:

The Auxiliary Enterprise Fund should be used in accordance with applicable guidelines. It should not be used to subsidize the imprest cash account, except as authorized.

All Auxiliary Enterprise funds borrowed to other accounts will be returned. In the future all applicable policies and procedures will be followed. It will be the responsibility of the Accounting Supervisor to ensure that these funds are handled properly.

Recommendation 16:

Minneapolis Community College should review the possibility of depositing imprest cash funds in an interest bearing account.

This recommendation will be referred to the Board Office for a system wide policy.

Recommendation 17:

Minneapolis Community College should develop procedures to ensure that travel advances are repaid in a timely manner.

A "travel advance log" will be established and maintained by the Business Office. Each month this log will be reviewed to produce an aging of outstanding advances. If travel advances are outstanding for an excessive length of time, the employee will be contacted and repayment requested. If this notice is disregarded, the Department of Finance will be contacted and the advance deducted from the employee's paycheck. This notification will include a copy of the contract language regarding repayment of advances.

In addition, employees with over \$500 in yearly travel advances will be encouraged to apply for an American Express card.

Recommendation 18:

Minneapolis Community College should cancel the April 3, 1980 bad debt in accordance with Minn. Statute Section 10.12.

This uncollected payroll advance is not collectable and will be written off.

Recommendation 19:

Minneapolis Community College should require employees to use the standard employee expense report form when requesting travel advances.

In the future only standard employee expense forms will be processed for travel advances.

In addition, the employee must also sign a "note" stating that said advance will be repaid within 30 days. The employee will be given a copy of this "note" that will contain contract language regarding repayment of advances.

The travel form contains all necessary language.

Recommendation 20:

The unreconciled balance of \$2,217 in the book buy back account should be determined and properly adjusted.

The \$2,217 appears to have been stolen and will be written off.

Recommendation 21:

Book buyback records should be improved as follows:

- **Books purchased should be listed:**
- **The purchase transaction should be recorded on the cash register; and**
- **The buyback activities should be reconciled to the authorized fund amount.**

The Bookstore has established a procedure for book buybacks. When books are repurchased from students a list is prepared which includes the amount of the repurchase, title of books, date of transaction and signature of student. All repurchases are rung through a cash register that is used only for this type of transaction. The cash register transactions are reconciled daily to the authorized fund amount.

Recommendation 22:

The continuous operations of the buyback fund should be evaluated and possibly limited to a few weeks each quarter.

At the present time this would not be feasible because of the contract that currently exists with Metropolitan State University. However, this contract will terminate in May 1988, at which time the buyback operations will be limited to a minimal amount of time each quarter.

Recommendation 23:

The authorized amount of \$6,922 should be evaluated to determine its necessity. Excess cash at the Bookstore should be deposited in the Auxiliary Enterprise Fund.

The change funds for the Bookstore will be reviewed and any excessive amount will be returned to the Auxiliary Bank Account. In addition, when the contract with Metropolitan State University is terminated in May 1988, the change fund will be reduced by approximately \$4,422.

It is anticipated that the change fund will only be increased during periods when books are repurchased from Minneapolis Community College students. When these buyback periods end, the cash will be returned to the Auxiliary Enterprise Account.

Recommendation 24:

The Minneapolis Community College Bookstore should establish a perpetual inventory system and complete annual comparisons to physical inventory counts.

Installation of a perpetual inventory system is difficult and costly based on experiences of other community colleges. A security system adequate to control losses is being evaluated.

Recommendation 25:

A record retention schedule should be established for the Minneapolis Community College Bookstore.

An inventory of financial records for the Bookstore will be taken. When this has been completed, a records retention schedule will be developed and submitted to the Department of Administration. After this has been approved, all non essential records will be disposed of.

Recommendation 26:

Student financial aid checks should be verified to the supporting cash disbursement sheets before being signed.

This recommendation has been implemented by the Business Office. After all information is entered onto the cash disbursements sheets they are given to an employee who writes the checks. When this is completed the checks, disbursement sheets, and all other supporting documentation are given to the Accounting Supervisor. He compares all data before signing the checks.

Recommendation 27:

All interest earned on NDSL money should be properly credited to the NDSL account.

In the future all interest earned on NDSL monies will be properly credited to the NDSL account. In addition, an analysis of past transfers of interest earned on this account will be made. Any funds that were improperly transferred will be returned to the NDSL account.

Recommendation 28:

Minneapolis Community College should credit the NDSL account immediately upon receipt of the NDSL loan collections.

Internal accounting records have been updated to reflect past collections of principal and interest received from the Community College System Office. The Business Office now receives monthly breakdowns of cash collections. These amounts are posted monthly to the NDSL accounts.

Recommendation 29:

Minneapolis Community College should limit federal cash requests to actual, immediate requirements and request money as frequently as necessary to eliminate excessive cash balances in the federal financial aid checking account.

The Accounting Supervisor intends to request funds on a weekly basis, thereby allowing more timely cash requests and resolving excessive cash balance problems. In addition, better lines of communication will be established between the Financial Aids Office and the Business Office regarding future fund requests necessary to cover financial aid disbursements.

Recommendation 30:

Minneapolis Community College should develop and implement procedures to ensure that state grant checks are reviewed regularly and that unawarded checks are returned to MHECB within the required period.

The Business Office will develop and implement procedures necessary to resolve this problem. The financial aid office should review unawarded checks weekly and authorize the Business Office to return them to MHECB. (Roster to be returned by financial aid office within 20-25 days)??

Recommendation 31:

The Financial Aid Office should review and approve the student payroll rosters.

The Financial Aid Officer will review and approve the student payroll rosters before they are sent to the Community College System Office.

Recommendation 32:

Minneapolis Community College should review the disposition of all outstanding balances with the appropriate Tribes and repay any determined amounts.

All documentation that exists will be reviewed in an effort to determine disposition of these accounts. Where ever possible Indian Tribes or individuals will be contacted. The funds in these accounts will be returned or written off.

Recommendation 33:

Minneapolis Community College should take a complete physical inventory of all assets at their campus and update their records accordingly.

Printouts of fixed assets will be obtained from the Department of Administration. Using these records a complete physical inventory of all fixed assets will be made. All items under \$300 will be relabeled with blank state property stickers and all items recently purchased and valued over \$300 will be assigned a state property number.

Recommendation 34:

Minneapolis Community College should develop a system (preferably FARMS) to adequately safeguard their assets. This system should control additions, deletions, and transfers of assets as well as assigning the responsibilities for these functions.

An individual was assigned this task but because of inadequate supervision did not adequately handle the fixed asset inventory. This individual will be retrained on the FARM system and assigned the responsibility of completing a physical inventory that accurately reflects the fixed inventory at this College. In addition, adequate supervision will be provided to ensure that this task is completed.

Thank you for your efforts and cooperation. I believe this will provide the responses you have requested. Please contact me if you have any questions.

Sincerely,


Earl W. Bowman, President

cc: Carl Gerber
Val Moeller
Jerry Jarosch,
Eric Radtke
Glenn Wood
Henry Stevens
Institutional Services Director (to be named)