

**WILLMAR COMMUNITY COLLEGE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989**

JUNE 1990

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

90-35

WILLMAR COMMUNITY COLLEGE

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1989

Public Release Date: June 29, 1990

No. 90-35

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Tuition and fee receipts, bookstore receipts, federal financial aid receipts, federal financial aid disbursements, supplies and equipment disbursements, student payroll, and employee payroll.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

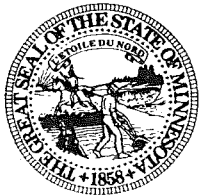
We found two areas where the internal control structure needed improvement:

- The college should better separate duties relating to federal financial aid disbursements.
- The college should require prompt payment of tuition except where the student has a valid deferment.

We reported on one area where the college had not complied with finance-related legal provisions:

- The college maintains excess federal cash balances.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald W. Christenson, Chancellor
Community College System

Members of the Community College Board

Mr. Harold Conradi, President
Willmar Community College

Audit Scope

We have conducted a financial related audit of Willmar Community College as of and for the three years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota's financial activities attributable to the transactions of Willmar Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Willmar Community College in effect as of March 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of Willmar Community College are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Willmar Community College's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. The Community College System is currently working with the Attorney General to determine the legal authority of the Minnesota Rules Chapter 8450, State Board for Community Colleges Policies and Regulations. Because of this uncertainty, we did not test for compliance with those provisions.

Scope Limitation

We were unable to audit certain Willmar Community College bookstore records. College staff were unable to locate bookstore cash register tapes and deposit slips for the period from July 1, 1986 through June 30, 1987. These records are necessary to verify that bookstore receipts are appropriately deposited.

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Management Responsibilities

The management of Willmar Community College is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- tuition and fee receipts,
- bookstore receipts,
- federal financial aid receipts,
- federal financial aid disbursements,
- supplies and equipment disbursements,
- student payroll, and
- employee payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 and 3 involving the internal control structure of Willmar Community College. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable condition described in finding 1 is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of Willmar Community College at the exit conference held on June 12, 1990.

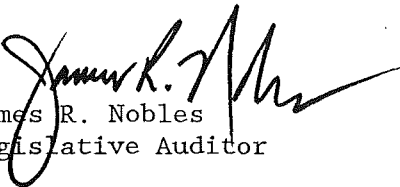
We noted two instances of noncompliance with applicable federal regulations during our 1989 audit of federal financial aid. First, Willmar Community College disbursed federal college work study funds to ineligible students. Also, they overpaid a Pell grant recipient. These instances of noncompliance are discussed in more detail in the management letter to the Community College System for the year ended June 30, 1989, dated April 23, 1990.


Except for the issues discussed in the preceding paragraph and finding 2, the results of our tests indicated that, with respect to the items tested, Willmar Community College complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that Willmar Community College had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of Willmar Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 29, 1990.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Gerald W. Christenson, Chancellor
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Mr. Harold Conradi, President
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We would like to thank the Willmar Community College staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 30, 1990

REPORT SIGNED ON: June 25, 1990

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Steve Pyan, CPA	Staff Auditor
Mike Anderson, CPA	Staff Auditor
Ron Mavetz, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Willmar Community College on June 12, 1990:

Harold Conradi	President
Gene Phillippe	Academic Dean
Colleen Thompson	Dean of Instruction
Terry Swenson	Business Manager
Bert Phillips	Financial Aid Director

WILLMAR COMMUNITY COLLEGE

I. INTRODUCTION

Willmar Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of Mr. Harold Conradi, the college president.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Major operating activities of the college are accounted for through the statewide accounting system. Other activities, including the federal financial aid programs and auxiliary enterprise accounts, are accounted for through manual records and local bank accounts. These activities are referred to as All College Fund activities which operate under the policies and regulations established by the Community College Board.

According the Community College System records, Willmar Community College deposited into the statewide accounting system \$1,416,967 in tuition and \$122,760 in other revenue for a total of \$1,539,727 during fiscal year 1989. Willmar Community College spent \$4,044,723 during fiscal year 1989 for general operations through the statewide accounting system. This included \$3,299,194 in payroll and personnel costs.

WILLMAR COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over federal financial aid disbursements at Willmar Community College are inadequate.

The Willmar Community College business manager solely controls the federal funds checking account. He requests federal funds for deposit, controls the checks and check signing machine, and reconciles the account.

The business manager is responsible for calculating cash needs and requesting funds from the federal government. He verifies all federal receipts with the local bank and records them in the college ledgers. He also handles all other credits or redeposits into the federal account.

In addition, the business manager is responsible for all checks written from the federal account. Although the financial aid office is involved in determining financial aid check amounts, the business manager sometimes alters the amount of the checks before distribution. It also would be possible for the business manager to write additional checks from the account. Two signatures are required on all checks written from the account. However, the business manager routinely uses a check signing machine to produce the required signatures. Because of this, an independent person does not see and approve the checks written from the account.

Finally, a separate, independent person does not reconcile the bank statements for the federal account. During a few months in fiscal year 1988, the academic dean performed a review of the bank reconciliation done by the business manager. However, the dean discontinued this practice even though the business manager still has sole responsibility for the account.

Strong financial controls are not present when all of the above responsibilities are assigned to one person. At a minimum, someone other than the business manager should receive and perform the bank reconciliation of the account. The reconciliation would then serve as a legitimate verification of account activity.

RECOMMENDATION

- Willmar Community College should reassign some of the duties related to the federal checking account. Someone other than the business manager should receive and perform the monthly bank reconciliation.

2. Willmar Community College maintains excess federal funds.

During fiscal years 1987-1990, Willmar Community College did not comply with federal cash management provisions. In seven of ten school year quarters analyzed, the college held cash for longer than the five days allowed by the federal Department of Education. During the two months

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following the completion of fall quarter registration for 1989, the federal checking account had an average available balance, not including Perkins repayments, of \$36,123.

The business manager requests financial aid program funds from the federal government. Usually within four days of his request, the Federal Reserve deposits funds directly into the college's local bank account. Other than at the beginning of each quarter, cash balances in the federal checking account should be limited to Perkins Loan repayments. However, we noted that through October 6, 1989, a month after the start of fall quarter, there was still over \$100,000 in the checking account of which only approximately \$35,000 related to Perkins repayments.

In addition, the business manager explained to us that he requests college work study funds every five or six weeks. Since the amount of the student payroll is fairly consistent, the business manager should request federal work study funds near the end of every pay period. The college should not hold any federal work study funds in the local federal account.

Willmar Community College should maintain cash on hand within the federal provisions, which state that funds on hand should not exceed immediate cash needs. The U.S. Department of the Treasury Circular 1075 requires that recipients of federal funds limit cash balances to immediate needs. The federal Department of Education further states that cash on hand should not exceed the immediate needs of the student financial aid programs. For the type of drawdown system currently being used by Willmar Community College, immediate cash needs are defined as five days.

RECOMMENDATION

- Willmar Community College should limit the amount of federal cash on hand to their immediate cash needs as defined by the U.S. Department of Education.

3. Willmar Community College is not requiring prompt payment of tuition.

Willmar Community College is not in compliance with board policy IV.01.06. The Minnesota Community College Board establishes policies and regulations under which all community colleges operate. Board policy IV.01.06 generally allows deferments of tuition and fees only in situations where the payments will be made through financial aid or other third parties. The policy requires each community college to file with the board office a plan before allowing "administrative deferments" of tuition. Willmar Community College has not filed an administrative deferments policy with the system office, but still allows students to remain in classes at the college without paying their tuition and without having valid deferments. As of May 15, 1990, students still owed the college \$3,515 for unpaid spring quarter tuition and fees.

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RECOMMENDATIONS

- Willmar Community College should require prompt payment of tuition except where the student has a valid deferment.
- Willmar Community College should file a plan for administrative deferments of tuition with the Community College Board office, as required by Community College Board policy IV.01.06.



June 15, 1990

Jeanine Leifeld, C.P.A.
Audit Manager
Office of the Legislative
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

In response to the audit your staff conducted at Willmar Community College, we submit the following:

FINDING # 1: CONTROLS OVER FEDERAL FINANCIAL AID DISBURSEMENTS AT WILLMAR COMMUNITY COLLEGE ARE INADEQUATE:

Response:

Due to the limited staff size in the business office, it is difficult to reassign duties relating to the federal checking account. However, the business manager will direct the account clerk to become involved in reconciling the federal checking account and the college president will direct the account clerk in a written notice that the account clerk is to inform the president of any transactions, transfers, expenditures, check payment corrections, or any items that may be regarded in any way questionable or not as directed and authorized by the financial aid officer. These directives are intended to provide internal control over the federal fund disbursements.

FINDING # 2: WILLMAR COMMUNITY COLLEGE MAINTAINS EXCESS FEDERAL FUNDS:

Response:

Through a combined effort of the financial aid officer and the business office, a greater attention will be directed to managing the cash flow situation. Every effort will be made to maintain a cash balance that is within the federal guidelines, i.e., no greater than necessary for five days.

We will develop a schedule for draw-down that will provide funds on a "as needed basis."

FINDING #3: WILLMAR COMMUNITY COLLEGE IS NOT REQUIRING PROMPT PAYMENT OF TUITION:

Response:

Willmar Community College will file a plan for administrative deferments of tuition with the Minnesota Community College Board. This will include a provision for hardship situations that have been locally approved on "an individual basis" and considered in the best interest of both the student and Willmar Community College.

Sincerely,



Harold G. Conradi
President

ep

cc: Bert Phillips, Financial Aid Director
Terrance Swenson, Accounting Officer

AUDIT