

**COMMUNITY COLLEGE SYSTEM
NORMANDALE COMMUNITY COLLEGE
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989**

AUGUST 1990

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

90-48

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

NORMANDALE COMMUNITY COLLEGE

FINANCIAL AUDIT FOR THE TWO YEARS ENDED JUNE 30, 1989

Public Release Date: August 3, 1990

No. 90-48

OBJECTIVES:

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

CONCLUSIONS:

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

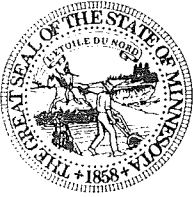
- The bookstore cashiers do not adequately document and review voided transactions.
- The bookstore staff does not maintain necessary documentation for purchases.
- The business office does not maintain adequate financial aid accounting records.

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

- The business office does not post to subsidiary financial aid ledgers on a timely basis.
- The college does not manage federal cash balances properly.
- The college's policy for reimbursing personal development training is inappropriate.

We also questioned the college's practice of spending auxiliary enterprise funds for other operating purposes. The college has transferred over \$1.2 million from the auxiliary account to the college's operating budget in the last two years.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

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. Dale A. Lorenz, President
Normandale Community College

Audit Scope

We have conducted a financial related audit of Normandale Community College as of and for the two years ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Normandale Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Normandale Community College in effect during 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 Normandale Community College are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Normandale 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.

Management Responsibilities

The management of Normandale 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:

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Mr. Dale A. Lorenz, President
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- 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 application fees receipts,
- federal financial aid receipts,
- bookstore receipts,
- federal financial aid disbursements,
- bookstore disbursements,
- employee payroll, and
- student 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.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 2, 3, and 4 involving the internal control structure of Normandale 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.

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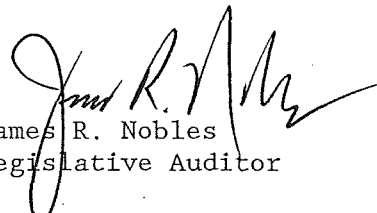
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

The results of our tests indicate that, except for the issues discussed in findings 4 and 5, with respect to the items tested, Normandale Community College complied, in all material respects, with the provisions referred to in the audit scope paragraphs. Except for the issue in finding 6, nothing else came to our attention that caused us to believe that Normandale Community College had not complied, in all material respects, with those provisions.


The issues presented in findings 1 and 6 represent our concerns with the reasonableness of Normandale Community College's practice of paying unrelated expenses out of the bookstore accounts and paying for personal development training.

This report is intended for the information of the Legislative Audit Commission and management of Normandale Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 3, 1990.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 18, 1990

REPORT SIGNED ON: July 27, 1990

NORMANDALE COMMUNITY COLLEGE

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Carl Otto, CPA	Staff Auditor
Eric Jacobson	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Normandale Community College at an exit conference on June 14, 1990:

Dale Lorenz	President
Dan Barnett	Dean of Institutional Services
George Nissen	Accounting Officer
Gary Ness	Financial Aid/Placement Director
Toni Munoz	Personnel Director
Jim Harris	Community College System Internal Auditor

NORMANDALE COMMUNITY COLLEGE

I. INTRODUCTION

Minn. Stat. Chapter 136 establishes Normandale Community College under the jurisdiction of the State Board for Community Colleges. Dale Lorenz is the president of Normandale Community College.

Normandale Community College finances its operations primarily by student tuition, fees and state appropriations from the General Fund. The college uses the statewide accounting system to account for its major operating activities. Minn. Stat. Section 136 exempts certain community college activities from the Department of Finance budgetary control, including the use of the statewide accounting system. Normandale accounts for the majority of these activities, including federal financial aid programs and auxiliary enterprise accounts, 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 to statewide accounting reports and Community College System reports, Normandale Community College collected \$7,217,982 in tuition and fees, \$1,529,687 in federal financial aid, \$1,924,354 in bookstore revenue and \$1,728,301 in other revenue for a total of \$12,400,324 for fiscal year 1989.

Normandale spent \$20,097,767 in fiscal year 1989 according to statewide accounting reports and Community College System reports. The following is a breakdown of these expenditure for fiscal year 1989:

Personnel Services	\$13,254,580
Operating Expenditures	2,057,732
Bookstore Disbursements	1,442,095
Federal Financial Aid	1,297,532
State Grants	426,948
State Workstudy	249,013
Other Auxiliary Enterprises	246,438
Capital Expenditures	228,124
Other Expenditures	<u>895,305</u>
Total	<u>\$20,097,767</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Normandale Community College is spending auxiliary enterprise funds inappropriately.

Normandale Community College has transferred over \$1.2 million from the auxiliary account to the college's operating budget in the last two years. The college is also making unallowable disbursements from the bookstore account.

The Community College Board states in their auxiliary enterprise policy; "It is the intent of this policy that the cost to students for required texts and materials be kept as low as possible." However, the Normandale Community College bookstore has historically made a substantial profit each year. In fiscal year 1989, the bookstore reported a profit of over \$341,000 on \$1,924,354 in sales. As of the end of April 1990, it reported profits of over \$594,781 from \$2,164,402 in sales during fiscal year 1990.

The college business office has transferred over \$1.2 million from the auxiliary account to the college operating budget in the last two years. The college made two of the transfers as a result of their auxiliary enterprise excess reserve plan. The Community College System Office approved this plan. The other transfer was an operating transfer. Although Community College Board policies allow for these transfers, we believe that the amounts transferred have been excessive.

In addition, during fiscal years 1988 and 1989, Normandale charged unallowable expenses directly to the bookstore. These expenses totalled \$5,974 and \$9,994 for the two years, respectively. Examples of these expenditures included the following:

- credit card charges incurred for tuition payments,
- extra curricular pay and staff development costs for a business office employee who does the accounting work for the bookstore,
- carpeting of the business office,
- expenses for a health fair, and
- student activities.

Business office staff authorized these payments. The bookstore manager authorizes most bookstore payments. However, she was not aware of these payments and did not approve them. We do not believe that the college should make payments from the bookstore accounts for activities not directly related to the bookstore.

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RECOMMENDATIONS

- Normandale Community College should only make disbursements from the bookstore account which directly relate to bookstore operations.
- The bookstore manager should authorize all payments made from the bookstore account.
- Normandale Community College should reevaluate their profit margin for the bookstore and adjust their mark-ups if necessary.

2. Bookstore employees do not adequately document voids.

The bookstore cashiers do not adequately document and review voided transactions. The cashiers ring up all purchases through the bookstore cash register. However, it may be necessary to void a transaction because of a keying error or because the student had insufficient funds to pay for the purchase. When a cashier voids a transaction, the cashier initials the cash register void slip and retains it. However, the slip does not include an explanation for the void nor is it reviewed and approved by a second bookstore employee.

Daily void totals may be substantial. During fiscal years 1988 and 1989, total voided transactions exceeded \$800 on 14 different days. Because these voided transactions represent decreases in the money present in the cash drawer compared to the cash register totals, proper documentation of voids is important. Therefore, each void should indicate an explanation of why the void was necessary, as well as who made the void. A second bookstore employee should review and approve all significant voids.

RECOMMENDATION

- The bookstore cashiers should document voids, including the reason for the void and the approving signature of a second bookstore employee.

3. Normandale Community College needs to improve documentation over bookstore purchases.

Normandale Community College's bookstore does not maintain adequate documentation over purchasing and receiving in two areas. In fiscal year 1988 and 1989, total purchases for the bookstore amounted to \$1,451,196 and \$1,652,442, respectively.

NORMANDALE COMMUNITY COLLEGE

First, the bookstore staff does not complete purchase orders to confirm book orders they place over the telephone. Verbal orders could result in misunderstandings about the items ordered. Furthermore, when a shipment of books arrives, staff cannot verify the quantities and price against a written purchase order. Without this verification, the bookstore could receive incorrect quantities or unordered items, or be charged incorrect prices.

In addition, the bookstore does not maintain evidence of the receipt of incoming merchandise. Currently, the bookstore manager discards the packing slips once she authorizes the related invoice. By retaining the packing slip, bookstore staff can verify what they actually received if any questions should arise. The community college board office also requires each college to retain packing slips or other evidence of receipt of goods.

RECOMMENDATIONS

- Bookstore staff should use purchases orders for all bookstore purchases.
- The bookstore should keep all packing slips or other evidence of the receipt of goods.

4. Normandale Community College does not maintain adequate financial aid accounting records.

Normandale Community College does not maintain adequate federal financial aid accounting records. Normandale Community College business office staff maintain a cash receipts journal and a cash disbursements journal to record financial aid receipts and disbursements. However, they do not maintain subsidiary ledgers by individual financial aid programs on an ongoing basis. Rather, the accounting officer attempts to reconstruct the individual program ledgers at the end of the fiscal year. The routine maintenance of individual program ledgers would help the college keep track of program balances and ensure that they have not exceeded program authorized amounts. The staff should reconcile these ledgers to the bank balance on a monthly basis to detect any errors in the ledgers.

The U.S. Department of Education has authorized Normandale Community College to receive over \$1.6 million in federal financial aid funds during fiscal year 1990. Applicable federal regulations require adequate financial aid accounting records. For example, 34 CFR690.81, relating to Pell, states, "An institution shall establish and maintain on a current basis financial records that reflect all program transactions. The institution shall establish and maintain general ledger control accounts and related subsidiary accounts that identify each program transaction..."

NORMANDALE COMMUNITY COLLEGE

RECOMMENDATIONS

The Normandale Community College business office should:

- maintain subsidiary ledgers on individual financial aid programs; and
- reconcile the financial aid accounting records to the bank balances on a monthly basis.

5. Federal financial aid cash management at Normandale Community College needs improvement.

Normandale Community College does not manage federal cash properly. The business office maintains excess federal cash balances and does not deposit Perkins Loans repayments into an interest-bearing account, as required.

The college maintains excessive cash balances in the student financial aid checking account. During fiscal year 1989 the average month end balance was \$50,182. For July through December 1989, the average month end balance was \$66,880. The business manager only requests federal cash about four times per year. In addition, he does not prepare an analysis of cash on hand before he requests additional funds. Department of Treasury Circular 1075 states that federal aid recipients should limit cash advances to the minimum amounts needed and time them to be in accord with actual, immediate cash requirements. The business manager should only request federal funds shortly before they will be used.

Part of the excess cash is nursing loan repayments which the college owes to the Department of Health and Human Services. Normandale Community College has nursing loan funds on hand even though the college no longer gives nursing loans to students. These funds are a result of repayments by former students of outstanding nursing loans. Through March, 1990, the college has collected \$57,197 from former nursing students. They have deposited this money into their federal financial aid checking account along with the Department of Education Title IV funds. According to 42 CFR 57.316a, any institution no longer participating in the nursing loan program must return all federal funds in the loan account to the U.S. Department of Health and Human Services.

The college also maintains excess federal college work study funds. The business manager does not request federal work study funds near the end of each pay period. Instead, he only requests federal work study money quarterly and makes transfers to the board office every two to three months as requested by board office staff. The board office maintains an account in the state treasury for student workstudy funds. As stated above, Normandale should limit their cash advances to immediate cash requirements.

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Perkins loan collections are not earning interest as required. During the period from July 1, 1988 to March 31, 1990, Normandale Community College received \$185,954 in Perkins loan collections. Pursuant to 34 CFR 674.8, this money should have been generating interest income until it was used to give new loans to students. Since the college has a financial aid savings account, they should deposit all Perkins funds into this account until needed.

RECOMMENDATIONS

- Normandale Community College should limit federal cash requests to actual, immediate requirements for each federal program, and request money as frequently as necessary to eliminate excessive cash balances in the federal financial aid checking account.
- Normandale Community College should return all nursing loan repayments to the federal government.
- Normandale Community College should draw college work study money shortly before each payroll.
- Normandale Community College should deposit all Perkins funds into the interest bearing savings account until needed to pay new loans.

6. The Normandale Community College personal development policy is inappropriate.

Normandale Community College provides 75 percent reimbursement of tuition and registration fees, or release time for training that is neither job related nor part of an approved career plan. According to the related Community College Board policy, employees who take training that is not job related must do so on their own time and shall pay all costs incurred. However, Normandale Community College has added a personal development category to their internal policy on staff development. The policy allows staff to take Normandale classes that are not job related for which the college reimburses the staff person 75 percent and time off.

Ten of the 51 training applications we reviewed were for personal development training. Examples of the personal development classes employees took include piano lessons, theater tickets to Broadway plays, a music class, and a litigation and trial course. These classes did not relate to the jobs or careers of the attendees. However, the college still reimbursed these employees for 75 percent of the cost incurred or gave them time off to attend the classes.

RECOMMENDATION

- Normandale Community College should discontinue the practice of reimbursing staff for personal development classes.

NORMANDALE

July 23, 1990

James R. Nobles, Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

In response to the draft audit report for Normandale Community College for the two-year period ending June 30, 1989, I respectfully submit the following:

Item 1. Normandale Community College is spending auxiliary enterprise funds inappropriately.

Recommendation: Normandale Community College should only make disbursements from the bookstore account which directly relate to bookstore operations.

We agree with this recommendation. George Nissen, Accounting Officer, will be responsible for ensuring proper disbursements from this time forward.

Recommendation: The bookstore manager should authorize all payments made from the bookstore account.

We agree with this recommendation. George Nissen heretofore assumes the responsibility for obtaining authorization from Dorothy McCandless, Bookstore Manager, for all payments from the bookstore account.

Recommendation: Normandale Community College should reevaluate its profit margin for the bookstore and adjust its markup, if necessary.

It is the opinion of the college that bookstore "profits" are not excessive. We believe the sizeable figure shown as "profits" to be the result of good management and a substantial enrollment. Normandale's bookstore had only three classified employees and we work to limit other overhead, so we can be as efficient as possible.

The audit report is correct in stating that the intent of the Minnesota Community College Board's auxiliary enterprise policy is that the cost to students for required tests and materials be kept as low as possible; however, a substantial portion of our "profits" is generated from non-required items such as sweatshirts, mugs, cards and gifts, etc.

"Profits" generated are transferred back into the general college revenue account in an effort to maintain the quality of our instructional programs and services to students.

To meet this recommendation, Normandale agrees to re-evaluate its bookstore profit margin. Results will be submitted to Deputy Chancellor Neil Christenson for review and adjustments, if necessary, to ensure compliance with System directions. Dr. Daniel G. Barnett, assisted by George Nissen and Dorothy McCandless, will be responsible for conducting the evaluation and presenting it to Dr. Christenson by Oct. 1, 1990, with a copy to the Legislative Auditor.

Item 2. Bookstore employees do not adequately document voids.

Recommendation: The bookstore cashiers should document voids, including the reason for the void and the approving signature of a second bookstore employee.

We agree with this recommendation. This procedure has already been implemented. Dorothy McCandless is responsible for ensuring the continuing compliance with this recommendation.

NORMANDALE COMMUNITY COLLEGE AUDIT RESPONSE

July 23, 1990

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Item 3. Normandale Community College needs to improve documentation over bookstore purchases.

- Recommendation: Bookstore staff should use purchase orders for all bookstore purchases.*

We agree with this recommendation. It has already been implemented. Dorothy McCandless is responsible for ensuring continued compliance.

- Recommendation: The bookstore should keep all packing slips or other evidence of the receipt of goods.*

We agree with this recommendation. Dorothy McCandless has implemented this recommendation and is responsible for compliance.

Item 4. Normandale Community College does not maintain adequate financial aid accounting records.

- Recommendation: The Normandale Community College business office should maintain subsidiary ledgers on individual financial aid programs.*

We agree with this recommendation. We will maintain subsidiary ledgers as of July 1, 1990, on individual financial aid programs on a current, monthly basis. George Nissen is responsible for the compliance with this recommendation.

- Recommendation: Reconcile the financial aid accounting records to the bank balances on a monthly basis.*

We agree with this recommendation. We will reconcile all financial aid accounts with bank balances on a monthly basis. George Nissen is responsible for compliance with this recommendation.

Item 5. Federal financial aid cash management at Normandale Community College needs improvement.

- Recommendation: Normandale Community College should limit federal cash requests to actual, immediate requirements for each federal program and request money as frequently as necessary to eliminate excessive cash balances in the federal financial aid checking account.*

We agree with this recommendation. We will monitor our federal cash balances to reflect the actual and immediate requirements. We will request money only as necessary, to eliminate excessive cash balances. George Nissen has begun and is responsible for compliance with this recommendation.

- Recommendation: Normandale Community College should return all nursing loan repayments to the federal government.*

We agree with this recommendation. Nursing loan payments are currently being analyzed and will be returned to the federal government. George Nissen is responsible for compliance.

- Recommendation: Normandale Community College should draw college work study money shortly before each payroll.*

We agree with this recommendation. George Nissen is responsible for drawing down college work study money as needed, shortly before each biweekly payroll.

NORMANDALE COMMUNITY COLLEGE AUDIT RESPONSE

July 23, 1990

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Recommendation: Normandale Community College should deposit all Perkins funds into the interest bearing savings account until needed to pay new loans.

We agree with this recommendation. George Nissen is responsible for immediate deposit of Perkins funds into an interest bearing savings account until needed to pay new loans.

Item 6. The Normandale Community College personal development policy is inappropriate.

Recommendation: Normandale Community College should discontinue the practice of reimbursing staff for personal development classes.

We agree with this recommendation. We will discontinue personal development reimbursement, in compliance with state guidelines, in the distribution of staff development funds effective July 26, 1990. Ms. Toni Munos, Personnel Director, is responsible for compliance with this recommendation.

Sincerely,



Dale A. Lorenz
President

jlb

cc: D. Barnett
T. Munos
G. Ness
G. Nissen