

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

AUGUST 1990

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

90-54

SUMMARY

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

BRAINERD COMMUNITY COLLEGE

FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1989

Public Release Date: August 17, 1990

No. 90-54

OBJECTIVES:

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

CONCLUSIONS:

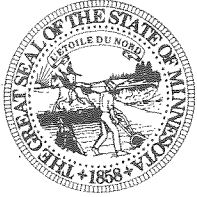
We found four areas where the internal control structure needed improvement:

- Controls over the college auxiliary enterprise receipts are inadequate.
- The bookstore manager needs to improve the controls over bookstore accounts receivable.
- The personnel officer does not review the payroll certification report for all non-faculty employees.
- The college does not properly document the use of travel advances for students.

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

- The business office needs to improve the cash management of federal financial aid funds.
- The business office does not require students to pay late fees.

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

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Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Dr. T. Alex Easton, President
Clearwater Community College Region

Ms. Sally J. Ihne, Provost
Brainerd Community College

Audit Scope

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

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

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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.

Due to 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,
- 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 1 to 4 involving the internal control structure of Brainerd 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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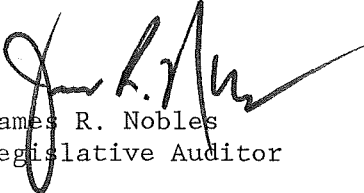
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may 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.

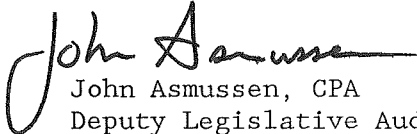
We also noted certain matters involving the internal control structure and its operation that we reported to the management of the Brainerd Community College at the exit conference held on May 25, 1990.

The results of our tests indicate that, except for the issues discussed in findings 5 and 6, with respect to the items tested, the Brainerd Community College complied, in all material respects, with the legal 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 the Brainerd Community College had not complied, in all material respects, with those legal provisions.

This report is intended for the information of the Legislative Audit Commission, the Community College Board and the management of the Brainerd Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 17, 1990.

We thank the Brainerd Community College staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 25, 1990

REPORT SIGNED ON: August 13, 1990

BRAINERD 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
Cecile Ferkul, CPA	Audit Supervisor
Rhonda Regnier, CPA	Audit Staff
Amy Jorgenson	Audit Staff

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of Brainerd Community College on May 25, 1990:

Sally J. Ihne	Provost
Kenneth Wiebolt	Vice Provost
Clyde Oliver	Business Officer
Karen Baltes	Financial Aid Director
Ann Erickson	Bookstore Manager

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I. INTRODUCTION

Brainerd Community College is one of the 18 community colleges throughout the state established by Minn. Stat. Chapter 136 under the jurisdiction of the State Board for Community Colleges. The college is part of the Clearwater Region, which also includes the community colleges in Fergus Falls and Thief River Falls. The president of the Clearwater Region is Dr. T. Alex Easton. The provost of Brainerd Community College is Sally J. Ihne.

Brainerd Community College partially finances its operations and programs through student tuition, fees and federal grants, with the balance from state General Fund appropriations. The college uses the statewide accounting system for their major operating activities, such as payroll and instructional disbursements. Minn. Stat. Chapter 136, however, exempts certain activities from the budgetary control of the Department of Finance. Thus, funds pertaining to student financial aid, auxiliary enterprise accounts and student activities are maintained in local bank accounts and transactions are not recorded on the statewide accounting system. These activities, referred to as All College Fund activities, operate under the policies and regulations established by the Community College Board.

According to Community College System records, Brainerd Community College collected approximately \$3 million in receipts during fiscal year 1989, including \$1.3 million in tuition and fees, \$1 million in federal financial aid receipts, and \$245,000 in bookstore receipts. During the same period, Brainerd Community College spent over \$3.5 million in instructional costs through the statewide accounting system. The largest expenditure category was payroll, totaling nearly \$3 million. As recorded in the college's ledgers, approximately \$900,000 was spent for federal student financial aid.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over the Brainerd Community College auxiliary enterprise receipts are inadequate.

Brainerd Community College business office employees have not adequately separated duties relating to auxiliary enterprise receipts. These receipts include incoming cash and checks from the bookstore and food service. Currently, the senior account clerk in the business office performs all key duties concerning auxiliary enterprise receipts. She counts the cash receipts, completes the daily cash report, compares cash totals to the cash register tape, deposits the cash in the bank, and reconciles the bank account. No one else verifies that the amount of cash received agrees with the cash register tape, the daily cash count record, or that those funds were actually deposited.

Due to the small staff at the college, an ideal separation of duties may not be possible. However, at minimum, the bookstore manager should perform the cash count, prepare the daily cash report, and retain a copy. The business office clerk could then verify that the cash count agrees with the cash register tape and the daily cash report, prepare and make the deposit, and return a copy of the deposit slip to the bookstore manager for verification against her copy of the daily cash report. The same procedures should be used for the food service operations. This separation of duties would reduce the risk that cash received may not be deposited.

RECOMMENDATION

- Brainerd Community College should separate duties over the reporting of auxiliary enterprise daily transactions and the related depositing of cash.

2. The bookstore manager needs to improve the controls over bookstore accounts receivables.

The bookstore manager does not maintain adequate accounts receivable records. In addition, she is responsible for all duties concerning bookstore accounts receivable. During fiscal year 1989, the bookstore had accounts receivable collections totalling \$30,356 or 12.4 percent of all bookstore receipts.

The bookstore manager does not keep a control list of all students who have charged books and supplies at the bookstore. By policy, only students who have third party authorizations from agencies such as the state Departments of Jobs and Training and Education, may charge books and supplies at the bookstore. The bookstore manager notes the value of all books and supplies purchased on the student's individual authorization.

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However, she never prepares a control ledger of all accounts receivable amounts. A control ledger of these authorizations and charges would allow her to verify that all reimbursable costs have been billed.

In addition, the bookstore manager is responsible for billing and collecting accounts receivable. She prepares bills from the individual authorizations. Incoming accounts receivable payments also come to the bookstore manager. To provide adequate separation of duties, someone not otherwise involved in bookstore operations should use the accounts receivable control ledger to monitor reimbursement requests and to reconcile amounts billed to actual receipts.

RECOMMENDATION

- The bookstore manager should maintain a control ledger of all bookstore accounts receivable. Someone independent of bookstore operations should reconcile the accounts receivable control ledger to subsequent deposits.

3. The personnel officer does not review the payroll certification report for all non-faculty employees.

The personnel officer at Brainerd Community College does not verify that all of the college's classified employees and unclassified professionals and supervisors have been properly paid through the state payroll system. Department of Finance Operating Procedure 07:04:29 requires agencies to review the payroll certification report and verify that the agency has entered data on hours worked and leave taken correctly. The community college system office enters all payroll information into the central payroll system. However, since the colleges keep the employee timesheets and leave slips, the system office has delegated the responsibility for verifying the payroll certification to the individual colleges. Currently, the Brainerd Community College personnel office only reviews the hours worked and leave taken for unclassified administrators, not those for classified employees and other unclassified staff.

RECOMMENDATION

- The personnel officer should verify the hours worked and leave taken by all non-faculty employees as recorded on the biweekly certification report.

4. The college does not properly document the use of travel advances for students.

The college does not require employees to provide receipts or other documentation for the actual use of travel advances for students. The business officer gives advances to coaches or other faculty to provide meals

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and related expenses to students traveling to events. The amount provided is based on an estimate of the number of students participating and is limited to specific amounts per student. However, after the event, the business office does not obtain receipts or other documentation showing how the money was spent. In order to ensure that the student activity funds are used only for purposes authorized by Board policy V.01.01 and within the limits set by the college's administration, the business officer should require that staff receiving advance funds document the use of those funds. Staff could be required to provide receipts or document the disbursement of the funds directly to the individual students.

RECOMMENDATION

- The business officer should require staff receiving advance funds for student activities to account for the use of those funds.

5. The business office needs to improve the cash management of federal financial aid funds.

Brainerd Community College does not manage federal cash properly. The business office does not deposit Perkins loan repayments into an interest-bearing account, does not restrict the use of the Perkins loan funds to that program's activities, and does not request federal work study funds based on immediate cash need.

Brainerd Community College does not keep Perkins loan repayments in an interest bearing account as required by 34 CFR 674.19. During fiscal year 1989, the average balance of the Perkins account was \$35,094. Any interest earned on this balance could be used to award loans to other students. Since the college does not maintain an interest bearing account, they lose this additional source of funds. Additionally, the college keeps Perkins loan repayments along with other federal receipts into a single bank account. The Perkins loan balance is utilized on a temporary basis for other federal programs that are administered out of this account. This is in violation of 34 CFR 674.18, which requires that Perkins loan proceeds may be used only for the Perkins program.

We also found that the business officer does not request federal work study funds based on immediate cash need, as required by U.S. Department of Treasury Circular 1075. He generally draws down federal funds about once per month. The wire transfer method of transferring funds used by the college takes about five days. Thus, a request for federal funds should occur approximately five days prior to each payroll payment date. The college should transfer the funds immediately to the state treasury. Requesting work study funds based on immediate cash need avoids excess balances both in the local college account and the state treasury.

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RECOMMENDATION

- Brainerd Community College should keep Perkins loan repayments in an interest bearing bank account.
- Brainerd Community College should only use Perkins loan proceeds for the Perkins program.
- The business officer should request federal work study funds based on immediate cash need.

6. The business office does not require students to pay late fees.

Brainerd Community College does not charge late fees to students who do not pay their tuition prior to the first day of class. According to Community College Board policy V.01.02, "a late fee shall be charged to any student who registers prior to the start of a quarter or summer session and does not pay the regular fees prior to the first day of class of that session and to any student who registers on or after the first day of classes and does not pay the regular fees on the day of registration." This late fee is \$5.00 if paid on the first day of class, plus \$2.00 for each succeeding day.

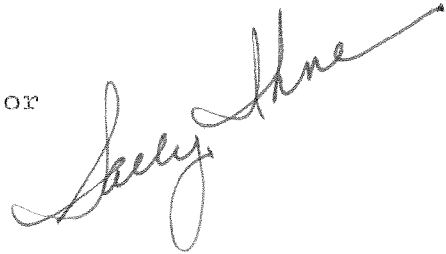
RECOMMENDATION

- The business office should collect the required late fee from students who pay their tuition after the specified dates.

Brainerd Community College

To: James R. Nobles, Legislative Auditor
Office of The Legislative Auditor

From: Ms. Sally J. Ihne, Provost
Brainerd Community College



Our written responses to the draft audit report are as follows.

Recommendation 1: Brainerd Community College will separate duties over the reporting of auxiliary enterprise daily transactions and the related depositing of cash. The food service operation is being contracted out to private industry and is no longer applicable to this recommendation. The bookstore manager will perform the cash count, prepare the daily cash report, and retain a copy. Ann Erickson is responsible for implementation of this recommendation. The date projected for completion is September 4, 1990.

Recommendation 2: The bookstore manager will maintain a control ledger of all bookstore accounts receivable. Ann Erickson is responsible for implementation of this recommendation. The date projected for completion is September 4, 1990. The business office cashier will reconcile the bookstore accounts receivable control ledger to subsequent deposits. Roxanne Drogemuller will be responsible for implementation of this recommendation. The date projected for completion is September 4, 1990.

Recommendation 3: The personnel officer will verify the hours worked and leave taken by all non-faculty employees as recorded on the biweekly certification report. Carol Blowers implemented this recommendation on May 22, 1990.

Recommendation 4: The business office will require staff receiving advance funds for student activities to account for the use of those funds. Clyde Oliver will be responsible for implementation of this recommendation. The date projected for completion is September 4, 1990.

Recommendation 5: Brainerd Community College will keep Perkins Loan payments in an interest bearing account and will only use Perkins Loan proceeds for the Perkins program. Clyde Oliver will be responsible for the implementation of this recommendation. The date projected for completion is September 4, 1990. The business office will request federal work study funds based on immediate cash need. A request for federal work study funds will be made ten working days prior to each payment date. The time is necessary to allow for a five day drawdown and a five day manual transfer through the State Treasurer's Office and posting to the work study account at the Community College System Office. Clyde Oliver will be responsible for implementation of this recommendation. The date projected for completion is September 4, 1990.

Recommendation 6: Brainerd Community College requires non-financial aid students to pay for classes prior to the start of the quarter. This was implemented August 24, 1989 for the start of Fall Quarter Fiscal Year 1990. As an example non-financial aid students this fall are required to pay by August 17, 1990, or their classes will be dropped. Non-financial aid students registering after August 17, 1990, have twenty-four hours to pay for their classes in order to retain them. The above procedure results in a late fee charge not applicable to Brainerd Community College Students.

CC: Dr. Gerald Christenson, Chancellor
Dr. T. Alex Easton, President