

**FERGUS FALLS 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**

90-55

FERGUS FALLS COMMUNITY COLLEGE

FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1989

Public Release Date: August 17, 1990

No. 90-55

OBJECTIVES:

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

CONCLUSIONS:

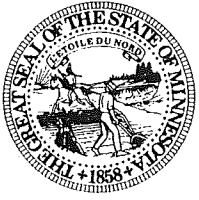
We found five areas where the internal control structure needed improvement:

- Controls over the college bookstore used book program are not adequate.
- The college needs to improve bookstore purchasing procedures.
- Duties over the Perkins Loan Program are not adequately separated.
- Controls over receipts collected in the registrar's office need improvement.

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

- The college assumed an improper role as a fiscal agent for a local organization.
- Federal financial aid cash management needs improvement.
- The college is collecting advance tuition deposits without proper approval.

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

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Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

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

Mr. Dan F. True, Provost
Fergus Falls Community College

Audit Scope

We have conducted a financial related audit of Fergus Falls Community College as of and for the three years ending June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Fergus Falls Community College and the Clearwater Regional Office, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Fergus Falls Community College in effect as of April 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 Fergus Falls Community College are free of material misstatements.

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

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 fee receipts,
- federal financial aid 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, 5, 7, and 8 involving the internal control structure of Fergus Falls Community College. We consider these conditions to be reportable

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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 none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of Fergus Falls Community College at the exit conference held on July 23, 1990.

The Code of Federal Regulations (34 CFR 674.8) requires recipients of federal Perkins Loan contributions to deposit their matching contribution prior to depositing the federal share. During fiscal years 1987 to 1989, Fergus Falls Community College did not meet this requirement. However, in fiscal year 1990, they changed their procedures and did deposit their match on time.


Minn. Stat. Section 16A.275 requires daily depositing of receipts if the total exceeds \$250. With respect to the items tested during fiscal year 1987 to 1989, Fergus Falls Community College did not deposit receipts in accordance with this statute. We also tested deposits in April 1990, and are satisfied that the college now deposits in accordance with this statute.

The results of our tests indicate that, except for the issues discussed in findings 1, 4, and 6, and the preceding two paragraphs, with respect to the items tested, Fergus Falls 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 Fergus Falls Community College had not complied, in all material respects, with those provisions.

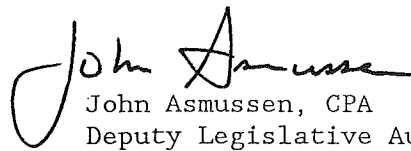
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This report is intended for the information of the Legislative Audit Commission and management of Fergus Falls Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on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

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 8, 1990

REPORT SIGNED ON: August 13, 1990

FERGUS FALLS 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
Alan Finlayson, CPA	Auditor-in-Charge
Sonya Hill	Auditor
Beth Hammer, CPA	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Clearwater Region and Fergus Falls Community College at an exit conference which was held on July 23, 1990:

Dr. T. Alex Easton	President
Dan True	Provost
Marnie Fischer	Vice Provost
Dennis Zilmer	Business Manager
Allen Walker	Financial Aid Director
Ann Nelson	Registrar
Sharyn Anderson	Account Clerk
Bettie Olson	Bookstore Manager

FERGUS FALLS COMMUNITY COLLEGE

I. INTRODUCTION

Fergus Falls Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Fergus Falls Community College is part of the Clearwater Community College Region which includes two other northwestern Minnesota community colleges who share a regional administration. Dr. T. Alex Easton is the president of the Clearwater Community College Region. Dan True is the Provost of Fergus Falls Community College.

Operations of the college are financed mainly by student general fees and state appropriations from the General Fund. Major operating activities of the college are accounted for through the statewide accounting system (SWA). Minn. Stat. Chapter 136 exempts certain community college activities from Department of Finance budgetary control, including the use of SWA. The majority of these activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All-College Fund activities. The All-College Fund operates under policies and procedures established by the Community College Board.

According to Community College System records, Fergus Falls Community College collected approximately \$2,000,000 in receipts during fiscal year 1989, including \$1,040,999 in tuition and fees and \$702,374 in federal financial aid receipts. During the same year, Fergus Falls Community College spent \$3,303,663 in instructional costs through the statewide accounting system. As recorded in the college ledgers, it expended \$704,672 on federal student financial aid, \$194,559 in bookstore disbursements and \$56,458 in other disbursements. The largest expenditure category was payroll, comprising \$2,484,312 or 75.2 percent of all disbursements.

The Clearwater Region Office was established in 1983. All region office accounting transactions are processed through the Fergus Falls business office. The financial activity of the Clearwater Regional Office consists mainly of about \$136,000 per year in payroll costs for the president and two staff members. All of its disbursements are recorded in the statewide accounting system. We combined the region office activity with our testing of transactions for Fergus Falls Community College.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Fergus Falls Community College assumed an improper role as a fiscal agent for a local organization.

Fergus Falls Community College improperly agreed to act as fiscal agent for the Otter Tail County Business Assistance Center. This arrangement resulted from a Higher Education Coordinating Board (HECB) grant to the Fergus Falls Chamber of Commerce. The Fergus Falls Chamber of Commerce received the grant to establish the Otter Tail County Business Assistance Center. However, the Chamber of Commerce did not meet the HECB grant eligibility requirements. Since Fergus Falls Community College met the requirements, the college agreed to act as fiscal agent. Their only duties were to receive the grant funds, and disburse them to the center.

We do not believe this was an appropriate role for the community college. Acting as a fiscal agent provides no advantage to the state and is not within the mission of the community college. Further, the college could have incurred a liability if the Chamber of Commerce or center did not fulfill its grant obligations.

A second problem occurred when the college allowed its librarian to sign a contract with the Chamber of Commerce to provide consulting services for the grant. The Fergus Falls Community College provost, a Chamber of Commerce employee, and the librarian signed the consulting contract. According to the contract, the college authorized the librarian to spend a minimum of one-half time on Chamber of Commerce activities. The college continued to pay 100 percent of her salary and fringe benefits. The librarian also received \$923 per month from the Chamber of Commerce. To compensate Fergus Falls Community College for lost hours, the Chamber of Commerce paid the college \$2,937. The librarian worked at the Chamber of Commerce from March 1986 until October 1986.

The consulting contract also created a conflict of interest for the librarian. Minn. Stat. Section 43A.38 forbids state employees from receiving additional payments for acts performed as part of their state employment. It also prohibits employees from using their position to secure benefits not available to the general public. The librarian worked as a consultant for the Chamber of Commerce, and received compensation from both Fergus Falls Community College and the Chamber of Commerce. In a memo dated December 29, 1986, the Community College System Office asked the college to explain the reason for paying the librarian full-time salary while allowing halftime work. In response, the provost stated that the employee's work assignment included the services to the Chamber of Commerce.

We do not believe Fergus Falls Community College should have entered into this contract. The compensation from the Chamber of Commerce covered duties which were identical to her college work assignment. The contract raises questions as to whether the employee's work position allowed her to obtain additional compensation as a consultant. In addition, no payroll

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records exist for her time worked at the Chamber of Commerce. The college was unable to supervise the librarian's work at the Chamber of Commerce and thus could not determine whether she worked all hours required by her contract. The college needs to ensure that it does not place its employees into situations where conflicts of interest may occur.

RECOMMENDATION

- Fergus Falls Community College should avoid arrangements such as the librarian's contract which place them in an improper role.

2. Controls over the used book sale program are not adequate.

Controls over the used book program are weak in two areas. First, the college does not have assurance that all payments to book sellers are appropriate. Students may sell their used books in the bookstore. The student places a form in the book listing the sales price. When the book sells, the bookstore staff sends the form to the business office. The business office then sends the seller a check for the sales price less a ten percent administrative fee. The college does not use prenumbered forms or maintain a record of the number of forms issued. Such records would allow the college to detect unauthorized use of the forms. In addition, the bookstore staff does not record cash register sales numbers or otherwise validate the sale forms before they send them to the business office. This could be done by ringing each form through the cash register at the time of the book sale. Controls are necessary to ensure that payments represent actual sales. Recording the sales information on the form would ensure the business office that a sale actually occurred. Under the current system, inappropriate payments could occur if the business office receives forms for unsold books.

A second problem is that students do not always sign the sales forms or formally approve changes to them. A signature documents that the student and college agree on the conditions of the program and the sales price of the book. In 11 of 26 forms we tested, the student did not sign the form. In three instances, the original sales price was reduced. However, the student did not sign or initial the form indicating approval for the change in the sale price. Without this acknowledgment, the bookstore may not detect unauthorized price changes.

RECOMMENDATIONS

- The bookstore should maintain a record of the number of used book sales forms issued.
- The bookstore should document the sales transaction on each used book sales form before they send it to the business office.
- The bookstore should require students to sign the used book sales form and formally approve any changes to it.

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3. Fergus Falls Community College needs to improve bookstore purchasing procedures.

Bookstore purchasing procedures need improvement in three areas. Purchase orders are not always prepared, evidence of receipt of goods is not retained, and invoices are not always paid timely. In fiscal year 1989, total expenses for the bookstore were about \$184,800.

First, the bookstore staff does not complete written purchase orders to confirm books or merchandise ordered by telephone. Purchase orders help eliminate misunderstandings which can result from verbal orders. Further, purchase orders allow staff to verify the quantities and price of the goods received. Without this verification, the bookstore may receive unordered items or pay incorrect prices.

In addition, the business office approves invoices for payment without verifying that the bookstore received the goods. Currently, the bookstore manager discards the packing slip after the invoice arrives. Although the business office reviews the invoices, they cannot ensure the validity of the invoices without the related packing slips.

Finally, the college does not pay bookstore invoices timely. The college needs to pay invoices promptly to maintain a good relationship with its vendors. In April 1990, 23 of 27 payments tested exceeded the 30 day payment term stated on the invoices. The college took an average of 51 days to pay these invoices.

RECOMMENDATIONS

- Bookstore staff should use purchase orders for all bookstore purchases.
- The business office should review all packing slips before they pay bookstore invoices. Packing slips should be kept on file with the invoices.
- The college should pay bookstore invoices within the stated terms.

4. Federal financial aid cash management needs improvement.

Fergus Falls Community College does not manage federal cash according to federal regulations. The college maintains excessive cash balances. According to Department of Treasury Circular 1075, federal aid recipients should limit cash advances to the minimum cash requirements.

During fiscal years 1988 and 1989, the accounting supervisor only requested federal financial aid funds three times per year. The financial aid director and accounting supervisor estimate financial aid disbursements for the entire upcoming quarter. The accounting supervisor then

FERGUS FALLS COMMUNITY COLLEGE

requests that amount from the federal government. Because the accounting supervisor does not request federal funds more frequently, the college has excessive cash balances in the financial aid account. For example, seven weeks after the start of fall, winter, and spring quarters in fiscal year 1989, the financial aid cash balance was \$15,202, \$19,652, and \$32,660, respectively.

The accounting supervisor should not obtain all federal funds needed for the entire quarter in one request. The business office does disburse most of the federal financial aid at the beginning of the quarter. However, the accounting supervisor should make separate, additional requests as needed for students whose financial aid has been delayed. He should also request college work study funds on a biweekly basis. The Community College System pays students through a system-wide biweekly student payroll system. The college currently transfers federal funds cash every two or three months to the system office for work study. To meet the federal requirements stated above, Fergus Falls Community College needs to draw federal cash for work study each pay period.

RECOMMENDATIONS

- Fergus Falls Community College should eliminate excessive cash balances in the federal financial aid account.
- The college should draw college work study funds shortly before each payroll.

5. Duties over the Perkins loan program are not adequately separated.

The financial aid assistant at Fergus Falls Community College performs incompatible duties for the Perkins Loan program. The financial aid assistant enters the disbursements into the system-wide loan management system. She also reconciles the disbursements to the loan system. These duties are incompatible because there is no independent verification that all loans have been properly entered into the system. In order to improve internal control, the college needs to separate these functions.

RECOMMENDATION

- Someone other than the financial aid assistant should reconcile loan disbursements to entries on the loan management system.

6. Fergus Falls is collecting advance tuition deposits without proper approval.

Fergus Falls Community College requires a \$50 advance deposit towards fall tuition. The registrar's office collects the deposits the preceding spring when students register for fall classes. The Community College

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Board has not authorized this practice. Any decision regarding the collection of fees needs the approval of the Community College Board.

RECOMMENDATION

- Fergus Falls Community College should not collect advance tuition deposits without obtaining approval from the Community College Board.

7. Controls over receipts collected in the registrar's office needs improvement.

Money collected at the registrar's office is not adequately safeguarded. The business office collects most tuition and fee receipts. It has a process in place to ensure safety and proper accountability over incoming receipts. However, the registrar's office also collects tuition and fees as a convenience to the students. The registrar's office does not have a cash register. Money is left in a basket until transferred to the business office. The current practice provides widespread access to these funds.

RECOMMENDATION

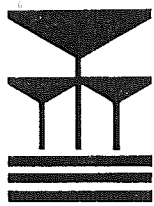
- Fergus Falls Community College should discontinue its practice of allowing students to pay tuition and fees at the registrar's office.

8. Fergus Falls Community College does not review the biweekly certification reports for classified employees.

Fergus Falls Community College does not ensure the accuracy of classified employees payroll. 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 of the individual colleges. Fergus Falls Community College does not review the payroll certification report. Such a procedure would provide assurance that classified employees payroll was correct.

RECOMMENDATION

- Fergus Falls Community College should review the bi-weekly certification report for classified employees.



**Fergus Falls
Community
College**

1414 College Way
Fergus Falls, Minnesota 56537
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August 7, 1990

Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Subject: Audit Report Response

Dear Ms. Leifeld:

Per your request of July 16, 1990, the staff of Fergus Falls Community College has reviewed your audit report of this college for the three years ended June 30, 1990. The following items respond to the audit findings and recommendations in the same order in which they are listed in your report. Please contact me if further clarification is necessary.

Response to Audit Recommendations

1. Fergus Falls Community College assumed an improper role as a fiscal agent for a local organization.

Recommendation

- Fergus Falls Community College should avoid arrangements such as the librarian's contract which place them in an improper role.

Response: Fergus Falls Community College has as a part of its mission been involved for many years in Economic Development activities within the service area of the college. The philosophy of the college is to cooperate and assist when appropriate, and within the college's resources, Economic Development efforts within our region.

The college accepts your recommendation with regard to any future involvement as a fiscal agent for the sole purpose of facilitating the transfer of grant fund to another entity which does not hold a 501.3C status.

We do not view this restriction as an action that will interfere with our ability to continue to promote and assist in Economic Development activities in our service area.

2. Controls over the used book sale program are not adequate.

Recommendations

- The bookstore should maintain a record of the number of used book sales forms issued.
- The bookstore should document the sales transaction on each used book sales form before they send it to the business office.

- The bookstore should require the students to sign the used book sales form and formally approve any changes to it.

Response: As per our exit interview discussion and agreement on July 23, the first recommendation would not be necessary if for recommendation #2, the bookstore used an imprinter (activated by the cash register) on all sales transactions on the Used Book Voucher. The third recommendation will be adhered to: all students will be required to sign and formally approve all changes to the Used Book Voucher. Elizabeth Olson, Bookstore Coordinator, will be responsible for complying with the above stated recommendations to take effect by September 30, 1990.

3. Fergus Falls Community College needs to improve bookstore purchasing procedures.

Recommendations

- Bookstore staff should use purchase orders for all bookstore purchases.
- The business office should review all packing slips before they pay bookstore invoices. Packing slips should be kept on file with the invoices.
- The college should pay bookstore invoices within the stated terms.

Response: As per our discussion during the exit interview, the bookstore does use purchase orders for all purchases; however, they will send confirming orders for all telephone orders, which will state all agreed terms, especially those that are different than the generic stated on the invoices. The above addresses recommendations #1 and #3. Recommendation #2 will be adhered to as stated. Elizabeth Olson, Bookstore Coordinator, will be responsible for complying with the recommendations as stated above effective October 1, 1990.

4. Federal financial aid cash management needs improvement.

Recommendations

- Fergus Falls Community College should eliminate excessive cash balances in the federal financial aid account.
- The college should draw college work study funds shortly before each payroll.

Response: FFCC agrees with these recommendations and will request federal financial aid cash (Pell, SEOG, & Perkins) upon the receipt of a written and signed list of awards by the Financial Aid Office. Only the dollar amount for the awards will be requested. For federal college work study these funds will be drawn for each pay period. Following this procedure the cash on hand will be in full compliance with the Blue Book. Mr. Dennis W. Zilmer will be responsible for complying with this recommendation starting with Fall Quarter of 1990.

5. Duties over the Perkins loan program are not adequately separated.

Recommendation

- Someone other than the financial aid assistant should reconcile loan disbursements to entries on the loan management system.

Response: Fergus Falls Community College agrees to this recommendation. Mr. Allen Walker will be responsible to see that someone other than the financial aid assistant will reconcile the disbursements to entries on the loan management system. This will take effect with the 1991 Fiscal Year.

6. Fergus Falls is collecting advance tuition deposits without proper approval.

Recommendation

- Fergus Falls Community College should not collect advance tuition deposits without obtaining approval from the Community College Board.

Response: Effective 6/14/90 the Board policy included that a portion of the General Fee may be required at the time of registration, see attachment A.

7. Controls over receipts collected in the registrar's office needs improvement.

Recommendation

- Fergus Falls Community College should discontinue its practice of allowing students to pay tuition fees at the registrar's office.

Response: Fergus Falls Community College agrees with this recommendation and Ms. Ann Nelson, Registrar, will be responsible for complying with this recommendation effective August 1, 1990.

8. Fergus Falls Community College does not review the biweekly certification reports for classified employees.

Recommendation

- Fergus Falls Community College should review the biweekly certification report for classified employees.

Response: FFCC agrees with this recommendation and has assigned Teresa Thompson to review the biweekly certification report and verify it against the employee time sheets for the classified employees. This started prior to the end of your audit, with pay period ending 5/22/90.

Sincerely,


Dan F. True, Provost
FERGUS FALLS COMMUNITY COLLEGE

DFT/tt

PRESIDENT'S MEETING
June 19-20, 1990

General Fees - Deposits

The Board policy on the payment of the General Fee states:

IV.01.06 "Enrollment is completed only after students have,
in addition to meeting other college requirements,
paid the general fee in full."

Exceptions to this policy are also provided within IV.01.06.
No provision for charging any fee is included in this policy.
A college may require a portion of the general fee be paid at
the time of registration, providing it is applied to the general
fee. The deposit may be non-refundable.

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