NORTH HENNEPIN COMMUNITY COLLEGE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

SEPTEMBER 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-64

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

NORTH HENNEPIN COMMUNITY COLLEGE

FINANCIAL AUDIT
JULY 1, 1986 - JUNE 30, 1989

Public Release Date: September 14, 1990 No. 90-64

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Tuition and application fee receipts, federal financial aid receipts, bookstore receipts, supplies and capital disbursements, 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:

- Perkins loan system entries are not reconciled to financial aid disbursements.
- Controls over disbursements are not adequate.
- Cash register voids are not adequately documented and approved.
- Bookstore receipts are not being promptly deposited.
- There is an inadequate separation of duties over the bookstore accounts receivable.

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

- The college is not complying with federal cash management requirements.

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

Dr. Frederick Capshaw, President
North Hennepin Community College

Audit Scope

We have conducted a financial related audit of North Hennepin 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 financial activities attributable to the transactions of North Hennepin Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of North Hennepin 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 transactions of North Hennepin Community College are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of North Hennepin 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 North Hennepin 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 application fees receipts,
- federal financial aid receipts,
- bookstore receipts,
- supplies and capital disbursements,
- 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 through 6 involving the internal control structure of North Hennepin 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 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 North Hennepin Community College at the exit conference held on August 7, 1990.

The results of our tests indicated the following instance of noncompliance with the provisions referred to in the audit scope. The college made an unallowable loan of $3,015 to a college faculty member. The faculty member became seriously ill while traveling in China, and needed money immediately to cover medical costs. The North Hennepin Community College president authorized the loan, which was paid from the imprest cash account on August 12, 1988. Since the faculty member was not traveling as an official representative of the college, the loan should not have been made from college funds. The faculty member reimbursed the total amount of the loan plus the cost of wire transferring the check on September 7, 1988.

Except for the issues discussed in the preceding paragraph and in finding 1, with respect to the items tested, North Hennepin 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 North Hennepin 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 North Hennepin Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 14, 1990.

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

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 27, 1990

REPORT SIGNED ON: September 6, 1990

NORTH HENNEPIN 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
Judy Cammack, CPA	Auditor-in-Charge
Rhonda Regnier, CPA	Staff Auditor
Susan Rumpca	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of North Hennepin Community College on August 7, 1990:

Dr. Frederick Capshaw	President
Rick Ellefson	Business Manager
Diane Brown	Accounting Supervisor
Dawn Belko	Senior Account Clerk
Shelden Anderson	Dean of Students
Diane Tix	Financial Aid Officer

I. INTRODUCTION

Minn. Stat. Chapter 136 establishes North Hennepin Community College under the jurisdiction of the State Board for Community Colleges. Dr. John Helling was the president of North Hennepin Community College until his retirement on June 15, 1990. Dr. Frederick Capshaw is currently the president of the college.

North Hennepin 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. North Hennepin 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 records, North Hennepin Community College collected $4,755,276 in tuition and fees, $1,223,127 in federal financial aid, $1,025,136 in bookstore receipts, and $1,198,232 in other receipts for a total of $8,201,771 for fiscal year 1989.

North Hennepin Community College spent $14,060,210 in fiscal year 1989 according to statewide accounting reports and Community College System records. The following is a breakdown of these expenditures for fiscal year 1989:

Personnel Services	$8,515,776
Bookstore Disbursements	939,548
Federal Financial Aid	1,241,827
State Workstudy	98,786
Other Auxiliary Enterprises	40,169
Supplies and Capital Expenditures	853,772
Other Expenditures	2,370,332
Total	$14,060,210

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. North Hennepin Community College is not complying with federal cash management requirements.

North Hennepin Community College does not manage federal cash properly. Procedures for determining federal cash needs are not adequate, the college has not requested Perkins Loan federal and state contribution amounts when needed, and the college maintains excess federal workstudy funds.

First, the college routinely borrows money from the Perkins and Nursing Loan programs to fund the other federal financial aid programs. Pursuant to federal regulation 34 CFR 674.18, Perkins loan proceeds may only be used for the Perkins program. In addition, per 34 CFR 668.16, Perkins Loans balances must be kept in an interest bearing account. Although the college has a saving account for Perkins collections, there has not been any activity in the account since before July 1, 1986. As of March 31, 1990, the saving account had a balance of $574 even though, according to college ledgers, the month end balance of Perkins Loan funds ranged from $39,259 to $105,770 during fiscal year 1989. Also, pursuant to U.S. Treasury Circular 1075, the college should not use Nursing Loan funds provided by the federal Department of Health and Human Services to fund Department of Education federal financial aid programs.

In addition, the college has requested and deposited Perkins loan federal capital contributions before the money was needed. Federal regulations require that schools request the federal contribution only when needed. For fiscal years 1987 and 1989, the college requested the federal contribution when there was a sufficient balance remaining in the Perkins account. The college has also not requested the state match amount timely. Federal regulations require schools that receive a federal contribution to contribute a one-ninth matching share. The regulations further require schools to deposit the state match prior to or at the same time they deposit the federal contribution.

Finally, the college maintains an excess cash balance in the state workstudy account. The college transfers federal workstudy funds to the State Treasury every two or three months as requested by the Community College Board Office. The college should request federal college workstudy funds near the end of each pay period and immediately transfer the requested amount to the state account.

RECOMMENDATIONS

- **The accounting officer should determine federal cash needs, by program, before requesting federal funds and ensure that she requests enough funds to cover immediate disbursements.**

- **The college should deposit all Perkins collections in the savings account until needed to make new loan disbursements.**

RECOMMENDATIONS (Continued)

- **The college should not request the federal capital contribution until needed. They should also deposit the state contribution share prior to or at the same time as the federal capital contribution.**

- **The college should request college work study funds shortly before each payroll ending date.**

2. Perkins loan system entries are not reconciled to financial aid disbursements.

The financial aid office does not reconcile Perkins loan disbursements to the transactions entered onto the system-wide Perkins loan management system. One employee in the accounting office makes loan payments and enters the disbursements into the loan system. However, no one independently verifies that all loans have been properly entered into the system. A reconciliation would make sure that the information on the loan system is accurate and that the community college system office will ultimately request proper repayment for all Perkins loans the college has given.

RECOMMENDATION

- **The financial aid office should reconcile Perkins loan payments to entries on the loan management system.**

3. PRIOR FINDING NOT RESOLVED: Controls over disbursements are not adequate.

The controls over disbursements at North Hennepin Community College are not adequate. The business office does not adequately document the receipt of merchandise and employees can make purchases without having the appropriate approvals.

The business office does not always require the employee receiving goods to prepare a receiving report or send a packing slip to the business office. The college has developed acceptable receiving procedures. However, these procedures only address goods received through central receiving. Many times the goods are sent directly to the person who ordered them. For 15 of the 31 sample items we tested, the only evidence that the goods were received was a signed copy of the invoice.

Department of Finance and Community College Board policies and procedures require that the receipt of goods be documented by signed and dated receiving reports. The Community College System Office procedures specifically state that a signed copy of the invoice is not sufficient evidence of receipt. Without adequate documentation of the receipt of goods, the college cannot verify the accuracy of invoices and may pay for goods not received.

In addition, employees sometimes make purchases or receive goods before they prepare the related purchase requisitions. For these purchases, the employee marks the purchase requisition "confirming only" and sends it to the business office. The business office then prepares the purchase order and has it approved after the fact. Of the 31 sample items we tested, 12 were purchases made in this manner. Although the normal purchasing procedures at North Hennepin Community College ensure that purchases are approved, bidding requirements are met, and sufficient funds have been encumbered, "confirming order" purchases circumvent these controls.

RECOMMENDATIONS

- **The business office should verify the accuracy of all invoices by matching them against signed and dated packing slips or receiving reports before the payment of invoices.**

- **The business office should make sure that all requisitions and purchase orders are appropriately approved before goods are purchased.**

4. Voids are not adequately documented and approved.

The cashiers in the business office do not document the reasons for voided transactions. Also, no independent person reviews each significant void for reasonableness. The cashiers use the void key on the cash register to deduct erroneous transactions from the daily totals. Voids are sensitive transactions because they represent differences between cash recorded and cash deposited. Because of this, the cashiers should document all voids. An independent person should review and approve all voided transactions.

RECOMMENDATION

- **The cashiers should document the reason for voided transactions. Also, a person independent of the cashiering duties should review these voids for reasonableness.**

5. Bookstore receipts are not being promptly deposited.

Bookstore employees do not promptly deposit receipts from the bookstore's secondary cash registers. The bookstore has three cash registers. However, employees primarily use one cash register and only use the secondary cash registers during busy times. On seven days we tested, these registers contained receipts totalling between $463 to $11,687 for up to five days before the registers were closed out and the deposit was made. Community College Board policy V.01.02 requires that the college make daily deposits when money received totals at least $250. Daily depositing safeguards the cash and increases investment income.

RECOMMENDATION

- **The bookstore should deposit receipts totaling $250 or more daily, in accordance with Community College Board policy V.01.02.**

6. There is an inadequate separation of duties over the bookstore accounts receivable.

One bookstore account clerk is responsible for all duties concerning the bookstore accounts receivable. Some students are allowed to charge purchases at the bookstore. This usually occurs when a third party has agreed to pay for the student's books and supplies. One bookstore employee is responsible for preparing bills from the third party authorizations, for receiving the incoming payments, and for maintaining the related bookstore accounts receivable records. To provide an adequate separation of duties, a person independent of the accounts receivable process should receive and deposit all incoming payments. This person should then provide the accounts receivable clerk with confirming documentation.

RECOMMENDATION

- Someone independent of the accounts receivable function **should receive and deposit all incoming bookstore payments.**

North Hennepin Community College

7411 Eighty-Fifth Avenue North, Brooklyn Park, Minnesota 55445 612-424-0811

August 28, 1990

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

Dear Ms. Leifeld:

We have studied the North Hennepin Community College's Legislative Audit Report and respond as follows:

FINDING #1
We concur with the recommendation.
Implementation Date: Fall Quarter 1990
Person Responsible: Dawn Belko

FINDING #2
We concur with the recommendation.
Implementation Date: Fall Quarter 1990
Person Responsible: Dawn Belko

FINDING #3
We concur with the recommendation. To remedy the situation, the procedures used by our Central Receiving Area will be used across campus. Also, we will work with the staff to decrease the frequency of confirming orders.
Implementation Date: Fall Quarter 1990
Person Responsible: Diane Brown

FINDING #4
We concur with the recommendation. Voids done after an initial transaction will be documented and approved by the supervisor or someone other than the person processing the void on the cash register.
Implementation Date: Fall Quarter 1990
Person Responsible: Diane Brown

FINDING #5
We concur with the recommendation except as insofar as it implies that large amounts of cash were held over for deposit rather than predominantly checks being held. To remedy the situation, we will ring all receipts on the primary cash register which is checked out daily.

Implementation Date: Fall Quarter 1990
Person Responsible: Jacky Lovberg

We do see some problems with this and are asking your consideration in raising the $250 limit, particularly as it pertains to checks. We will also pursue this with the System Office.

FINDING #6
We concur with the recommendation. To remedy the situation, we will have a staff member other than our account clerk receive and deposit all incoming bookstore payments.

Implementation Date: Fall Quarter 1990
Person Responsible: Jacky Lovberg

By the way, an unrelated correction to the report would be to correct the spelling of my name throughout.

I hope that these changes in operations meet expected standards. If you would like to work with us to further upgrade procedures as you might see fit, please contact me. We enjoyed working with you and your staff. Thank you for your help and cooperation.

Yours truly,

Frederick W. Capshaw

Frederick W. Capshaw, Ph.D.
President

FWC/mmt

xc: Chancellor Gerald Christenson
Deputy Chancellor Neil Christenson
Sheldon Anderson
Rick Ellefson
Janis Weiss