

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

OCTOBER 1990

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

90-70

NORTHLAND COMMUNITY COLLEGE

FINANCIAL AUDIT JULY 1, 1986 - JUNE 30, 1989

Public Release Date: October 19, 1990

No. 90-70

OBJECTIVES:

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

CONCLUSIONS:

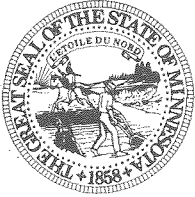
We found five areas where the internal control structure needed improvement:

- The college does not properly monitor and control tuition accounts receivable.
- Controls over incoming college receipts need improvement.
- The college is not complying with federal cash management requirements.
- Controls over the college work study program need to be improved.
- Controls over Stafford loan checks need improvement.

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

- The college is not complying with federal cash management requirements.
- The college contract with the food service needs to be changed.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
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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

Mr. James Haviland, Acting Provost
Northland Community College

Audit Scope

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

As part of our study and evaluation of the internal control structure, we performed tests of Northland 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 College Policies and Regulations. Because of this uncertainty, we did not test for compliance with those provisions.

Management Responsibilities

The management of Northland 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

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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 receipts and cash management,
- 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.

Scope Limitation

Because of the lack of records as discussed in finding 2, we were unable to determine whether all tuition receipts for the three years ended June 30, 1989 had been properly recorded and deposited. According to the Community College System system-wide records retention schedule, the college should have maintained all detailed cash register tapes for four years or until audited.

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Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 4, and 6 involving the internal control structure of Northland 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 the reportable conditions described in findings 1 and 2 are material weaknesses.

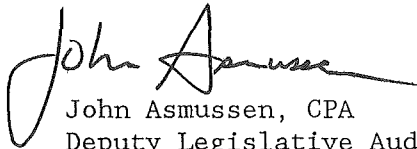
We also noted other matters involving the internal control structure and its operation that we reported to the management of Northland Community College at the exit conference held on June 29, 1990.

The results of our tests indicated that, except for the issue discussed in finding 3, with respect to the items tested, Northland Community College complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, except for the issues discussed in finding 5, nothing came to our attention that caused us to believe that Northland 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 Northland Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 19, 1990.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 29, 1990
REPORT SIGNED ON: October 10, 1990

NORTHLAND 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
Chris Buse, CPA	Auditor-in-Charge
Ron Mavetz, CPA	Auditor
Eric Jacobson	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of Northland Community College at an exit conference which was held on June 29, 1990:

Dr. Allen Nichols	Provost
Jerry Winans	Business Manager
Kelsy Richards	Director of Financial Aid

NORTHLAND COMMUNITY COLLEGE

I. INTRODUCTION

Northland Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Northland 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. Dr. Allen Nichols was the Provost of Northland Community College during the audit period.

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, Northland Community College collected approximately \$1,620,000 in receipts during fiscal year 1989, including \$760,911 in tuition and fees and \$593,000 in federal financial aid receipts. During the same year, the college spent \$2,554,490 for instructional costs through the statewide accounting system. As recorded in the college ledgers, it expended \$629,551 on federal financial aid during fiscal year 1989. The largest expenditure category was payroll, comprising \$2,107,715 or 63 percent of all disbursements.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Northland Community College does not properly monitor and control tuition accounts receivable.

Northland Community College is not controlling unpaid tuition and fees. The college is not insuring that only students with valid deferments are allowed to attend classes without paying. In addition, the business office is not monitoring outstanding accounts receivable to make sure that students ultimately pay off all balances.

Generally, students must pay their tuition and fees before the first day of class. However, Community College Board policy IV.01.06 allows certain students to defer payment of their tuition if they meet valid deferment criteria. Allowable deferments include administrative (hardship) deferments, and financial aid and other third party payments. In the student registration system, the college uses a series of deferment codes to identify the reasons why students have outstanding balances due after the first day of classes.

The college is not providing effective control over tuition deferments and the related accounts receivable in several respects, including the following:

The college is not complying with the board policy in granting administrative (or hardship) deferments. According to the board policy, the college may only grant administrative deferments provided it has an approved plan. Although the deputy chancellor approved a plan for the college, he also added additional conditions to the original proposed plan. However, the Northland business manager and registrar do not follow the approved plan. They routinely grant administrative deferments without the approval of the provost or vice provost, which is required by the plan. In addition, the business office has not required students to pay for their classes by the end of the quarter, which is also required. Because of this practice, the college generates a significant number of unauthorized accounts receivable.

The college does not document deferments properly. No written documentation exists for most administrative deferments. In contrast, the financial aid director prepares forms to document deferments for students who expect to receive financial aid payments. However, the registrar's office discards these forms after entering the deferment codes into the student registration system.

The business office does not credit the students' accounts in the student registration system when they receive tuition payments from third parties. As a result, the registration system overstates the total tuition balance due. It is also difficult to identify which student accounts have been cleared by third party payments and which are still outstanding. Therefore, the business office cannot be certain that the college has received all its third party receipts.

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The business manager writes off outstanding tuition receivables. In one case, the college deferred a student based on an understanding with the Department of Jobs and Training that the department would pay the student's tuition. However, the department cancelled the student's award after the student violated the grant conditions. In order to clear the student's outstanding balance due, the business manager dropped 10 of the student's 15 credits at the end of the quarter, eliminating the \$300 receivable.

The college does not always collect late fees from students who have not paid their tuition, but who do not have a valid deferment. According to board policy V.01.02, "a late payment 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" Northland officials told us, however, that they only charge a late fee in "extreme cases." The college collected a total of only \$323 in late fees during fiscal years 1987 through 1989. Because the college does not always document deferments, it is sometimes difficult to determine which students should be charged the late fee.

The business manager has the authority to both enter tuition deferments and tuition payments into the student registration system. Collecting receipts and monitoring accounts receivable are incompatible accounting functions. Thus, the business manager should not have the authority to enter deferments into the registrations system. Although the registrar attempts to monitor tuition accounts receivable, we found that the registrar's ledger was missing an entire year of accounts receivable transactions. It, therefore, cannot be used as an effective, independent accounts receivable system.

Northland Community College officials need to take immediate action to improve controls over tuition accounts receivable. It is important that the college monitor outstanding tuition accounts receivables. We reviewed a sample of 65 students deferred by the college during fiscal years 1987 through 1989. At the time of our audit, all of these students still showed balances due to the college. In some cases, third parties may have paid for the tuition. However, the payments had never been posted to the tuition system. In six cases, college officials were unable to provide any information on who had authorized the deferments or why they had been given.

RECOMMENDATIONS

- The college should only grant deferments in accordance with the approved deferment plan.
- The business manager should not have the authority to enter tuition deferments into the student registration system.

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RECOMMENDATIONS (Continued)

- The college should require written documentation for all deferments.
- The business office should post all third party tuition payments to the student registration system.
- The business manager should not have the authority to write off delinquent accounts receivable.
- The college should collect late fees when applicable, as required by the board policy.

2. Controls over incoming Northland Community College receipts need improvement.

Northland Community College does not have proper controls over receipts in three areas.

First, cash receipt duties are not separated adequately. The college policy is to have at least three people involved in the tuition receipts process. However, the business manager often performs the other employees' duties. For example, the business manager performed all receipts functions in 5 of 15 deposit days in April 1990. He collected receipts and entered them onto the cash register; he posted the payments to the student registration system; he closed out the cash register and deposited the receipts; and he reconciled the receipts to the student registration system. Controls are inadequate whenever one person is responsible for all aspects of an accounting process, such as receipts.

In addition, the business office does not account for all cash register transaction numbers. The cash register automatically assigns each receipt a separate transaction number. Business office employees clear the register daily and reconcile the receipts to the cash register summary totals. However, as a part of this process, no one compares the beginning transaction number to the ending number from the previous day. This comparison would verify that each daily reconciliation includes all transactions since the previous day.

Finally, the business office did not retain the detailed cash register transaction tapes during the audit period. These tapes are the primary accounting records supporting incoming tuition receipts. Without these tapes, we were unable to determine whether all tuition receipts for the three years ended June 30, 1989 had been properly recorded and deposited. According to the Community College System system-wide records retention schedule, the college should have maintained all detailed cash register tapes for four years or until audited.

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RECOMMENDATIONS

- The college should develop procedures for separating incompatible duties in the receipts process.
- The college should account for all cash register transaction numbers as part of the daily cash reconciliations.
- The college should retain all detailed cash register tapes in accordance with the community college records retention schedule.

3. Northland Community College is not complying with federal cash management requirements.

Northland Community College does not manage federal cash properly. The college has inadequate procedures for projecting its federal cash needs. In addition, the college is not complying with federal regulations concerning Perkins loan cash management.

Poor cash estimation procedures have resulted in shortages and excesses of federal cash. Both the local federal checking account and the work-study payroll account in the state treasury had excessive cash balances in all four months we tested. The college work-study payroll account had an average daily cash balance of \$13,430 during February and March 1990. Biweekly payroll costs averaged only \$5,783 during this same period. On the other hand, the college has also experienced cash shortages in the federal checking account. For example, the college bookstore loaned the federal checking account \$20,000 for three months during fiscal year 1988. The federal checking account was overdrawn during 6 of 46 months during the audit period, resulting in \$205 of overdraft charges. The college repaid these overdraft charges from its state funds. The college must develop cash estimation procedures to avoid future overdraft charges and comply with federal cash limitations.

The college is also not following Perkins depository and matching regulations. The college does not keep Perkins loan balances in an interest bearing account. Federal regulations require institutions to hold all Perkins funds in interest bearing accounts. In addition, the college did not deposit its Perkins state matching contribution until three months after they received their federal funds. Federal regulations require institutions to deposit their match at the same time or before they request federal funds.

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RECOMMENDATIONS:

- The college should develop federal cash forecasting procedures to make sure that federal cash balances are adequate, but not excessive.
- The college should deposit all Perkins funds in an interest bearing bank account.
- The college should make its Perkins state match at the same time or before it requests federal funds.

4. Internal controls over the college work study program need to be improved.

Northland Community College's work study job assignment procedures result in an inefficient allocation of program funds. The financial aid office provides each student with a job list and a work study authorization card. Students are responsible for finding their own jobs from the approved list.

The job list does not have limits on the number of students needed for each position. As a result, some positions may have an unreasonable number of students assigned to them. For example, the college job list contains one position for a hockey manager. The hockey manager's responsibilities include attending all games and practices, organizing equipment, and cleaning locker rooms. However, during one two week payperiod, twelve students received \$1,088 for performing these functions. Nine of these students also played for the college's hockey team. The college paid 26 hours for sharpening skates and 82 hours for washing jerseys. We feel these costs are excessive and inconsistent with the intent of the college work study program. Federal regulations require institutions to award employment, to the maximum extent practical, that will complement student's educational goals.

The college's procedures for reviewing and approving student timesheets also need improvement. Students are responsible for reporting their hours worked each pay period. Supervisors sign these timesheets, attesting to their validity and accuracy. The financial aid office reviews the timesheets a second time before processing payroll. Despite these two reviews, many students are receiving inaccurate payments caused by mathematical errors. Over eleven pay periods, the college potentially overpaid eleven students a total of nineteen hours due to mathematical discrepancies. In addition, there were three instances where supervisors added hours to students' timesheets. College employees were unable to explain why they added these hours. To improve controls, the college must verify the mathematical accuracy of all timesheets. In addition, students should authorize all adjustments to their timesheets.

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RECOMMENDATIONS:

- The college should place reasonable limits on the number of students assigned to each college work study position.
- The college should verify the mathematical accuracy of each timesheet before processing payroll.
- The college should require students to authorize all significant adjustments to their timesheets.

5. Northland Community College's contract with the food service needs to be changed.

Northland Community College has not included required specifications concerning work study students in its contract with the college food service. The college contracts with a private company for food service. Generally, federal regulations specify that the federal government will only provide 55 percent of salaries for students employed by outside, private sector companies. However, the regulations allow a 75 percent federal share for students working for private employers on campus, if certain contract provisions are met. In order to be eligible, the college must have the right to select the number of students to be employed, the specific students, and their pay rates. In practice, the college exercises these rights. However, the contract between the college and the food service does not contain these provisions. The college is currently using federal funds for 75 percent of these students' salaries.

RECOMMENDATION

- Northland Community College should comply with federal work study regulations by revising the contract with the food service.

6. Internal controls over Stafford loan checks need improvement.

Internal controls over Stafford loan checks are weak because the financial aid office both authorizes loans and has access to the loan checks. The financial aid office is responsible for determining and documenting the student's eligibility on the loan application. The financial aid office also receives incoming loan checks from the lenders. Both authorizing loans and having access to loan checks is a weakness in the college's system of internal control. All loan checks should be sent directly to the business office.

RECOMMENDATION:

- The financial aid office should not have access to Stafford Loan checks.

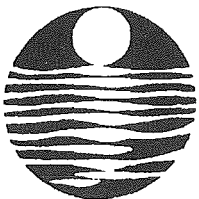


Northland Community College

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October 4, 1990

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

Dear Ms. Leifeld:

RE: Financial Audit of Northland Community College
For the Three Years Ending June 30, 1989

- 1) Northland Community College does not properly monitor and control tuition accounts receivable.

Northland Community College will adhere to the recommendations found in Concern #1.

- a) Northland has implemented a new deferment plan. The deferment plan states that only the Provost or Vice Provost will authorize hardship deferments.
- b) The Registrar has been instructed to drop individuals from class lists if tuition has not been paid by the 10th day of the quarter.
- c) No written documentation exists for most administrative deferments. The only administrative deferments are hardship deferments which are now properly authorized.
- d) The Registrar has been advised to retain deferment forms until the accounts are audited.
- e) The business office has been instructed to post all third party tuition payments to the student registration system.
- f) In those instances where students do not have a valid deferment, they will be assessed a late fee in accordance with State Board Policy V.01.02.
- g) At this time the Business Manager does not have authorization to enter deferments into the registration system. This is done only by approval of the Director of Financial Aid, Registrar, and the Provost.
- h) The business office will furnish the Registrar with a listing of all payments received. The Registrar will

in turn generate a fee statement to those outstanding accounts.

- 2) Controls over incoming Northland Community College receipts need improvement.

Northland Community College will adhere to the recommendations found in concern #2.

- a) In reference to cash receipts, the account clerk will collect and post tuition payments, the bookstore manager will close out the cash register and prepare the daily deposit, and the secretary will deposit the receipts at the bank. The business manager will reconcile the receipts to the student registration system.
- b) The business manager will assume the responsibility of reconciling all cash register transaction numbers on a daily basis.
- c) The business office will retain the daily cash register transaction tapes.

- 3) Northland Community College is not complying with federal cash management requirements.

Northland Community College will adhere to the recommendations found in concern #3.

- a) Northland Community College has implemented procedures for separating incompatible duties in the receipts process.
- b) It is our understanding that the balance is determined by the date on which the check is written. If in fact this is the case, we need assistance on understanding how other institutions control this effort.
- c) An interest bearing account will be established for depositing the Perkins funds.

- 4) Internal controls over the college work study program need to be improved.

Northland Community College will adhere to the recommendations found in concern #4.

- a) Effective fall quarter 1990, the Financial Aid Office has established a procedure by which work study supervisors are provided with the maximum of work study dollars they are allowed to spend during the school year. This sets limits on the amount of work

study dollars spent by each supervisor.

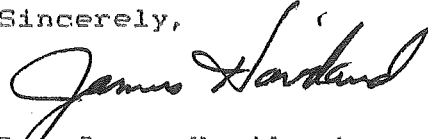
- b) Northland Community College will continue to review the mathematical accuracy of timesheets by asking supervisors to first review the calculations. Financial Aid staff will then review the accuracy of timesheets.
 - c) Northland Community College will continue to require that students sign their timesheets verifying the accuracy of hours worked. Timesheets with adjustments that appear to have been made after the student signed the timesheet will not be processed. These timesheets will be returned to the supervisor to obtain the student's signature.
- 5) Northland Community College's contract with the food service needs to be changed.

Northland Community College will adhere to the recommendations found in concern #5.

- a) In the past Northland Community College has, in practice, met Federal Regulations 675.21(a) by exercising the right to determine the number of students, to select the particular students and to set pay rates for students employed in the Food Service area. This issue has been resolved with an addendum to the existing food service contract.
- 6) Internal controls over Stafford loan checks need improvement.
- a) Financial Aid Office access to Stafford loan checks is limited to a verification role. The Financial Aid Office does not disburse loan checks. The Financial Aid Office receives the loan check, records the date and amount of the check on the students' master card, verifies that the loan amount is correct and that the student is enrolled at Northland Community College. The loan check is then turned over to the Business Office for disbursement. The December 1988 publication of the Blue Book, page 38, addresses the separation of functions in regards to loans. The Blue Book states "Under the Stafford and SLS programs, loan proceeds may be received by the financial aid office and then forwarded to the business office for processing. The financial aid office would not be considered to have 'disbursed' funds to the student. It has simply transmitted the funds to the 'disbursing' office." As we believe the recording and verification of the loan checks is an integral step in the management of financial aid funds, the Financial Aid Office will continue to

receive student loan checks and process them in the
same manner unless advised differently.

Sincerely,

A handwritten signature in cursive script, appearing to read "James Haviland".

Dr. James Haviland
Provost

JH:bb