

**COMMUNITY COLLEGE SYSTEM OFFICE
FINANCIAL AUDIT
AS OF JANUARY 1991**

JUNE 1991

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

COMMUNITY COLLEGE SYSTEM OFFICE

FINANCIAL AUDIT AS OF JANUARY 1991

Public Release Date: June 14, 1991

No. 91-35

OBJECTIVE:

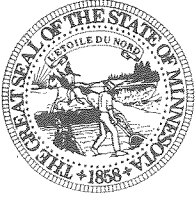
- EVALUATE INTERNAL CONTROL STRUCTURE OVER SELECTED ACTIVITIES: Information Services Division general data processing controls, application controls over the student information system and the student payroll system, statewide processing of personnel/payroll and disbursements, and the individual retirement account plan.

CONCLUSIONS:

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

- The Community College System Office does not adequately control access to its computer system.
- Student information system cashier ID numbers are not safeguarded.
- The Community College System Office does not effectively control tuition deferment codes.
- The system office does not use computer edits in its student payroll system.
- Controls over transferred retirement funds need improvement.
- Payroll duties are inadequately separated.

Contact the Financial Audit Division for additional information.
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STATE OF MINNESOTA

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Audit Scope

We have conducted a financial related audit of selected activities of the Community College System as of January 1991. Our audit was limited only to a portion of the Community College System Office, as discussed in the Introduction. 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 Community College System Office are free of material misstatements.

Our audit was limited to a review of the Community College System Office's Information Services Division and a review of certain services performed by the System Office on behalf of the entire system. Specifically, we reviewed the following:

- Information Services Division general data processing controls, and application controls over the student information system and the student payroll system;
- Systemwide processing of personnel/payroll and disbursements; and
- Individual retirement account plan.

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.

Management Responsibilities

The management of the Community College System Office is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

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- 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.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 5 involving the internal control structure of the Community College System Office. 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 finding 1 is a material weakness in general data processing controls and finding 2 is a material weakness in access to the student information system.

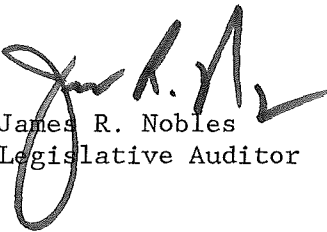
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Community College System Office in finding 6 and at the exit conference held on May 22, 1991.

In connection with our audit, nothing came to our attention that caused us to believe that the Community College System Office had not complied, in all material respects, with provisions of laws, regulations, and contracts relating to the areas we reviewed.


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This report is intended for the information of the Legislative Audit Commission and management of the Community College System Office. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 14, 1991.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 15, 1991

REPORT SIGNED ON: June 10, 1991

COMMUNITY COLLEGE SYSTEM OFFICE

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Dave Poliseno, CPA	Auditor-in-Charge
Joan Haskin, CPA	Senior Auditor

EXIT CONFERENCE

The findings and recommendations included in this report were discussed with the following staff of the Community College System Office at the exit conference held on May 22, 1991:

Neil Christenson	Deputy Chancellor
Glenn Wood	Director, Fiscal Services
David Godderz	Director, Information Services
Anne Weyandt	Director, Executive and Staff Services
Bernadine Bryant	Director, Human Resources
Jim Dierich	Associate Director, Information Services
Elaine Stump	Disbursement Supervisor
Judy Sandal	Payroll Supervisor
Don Wujcik	Consultant

COMMUNITY COLLEGE SYSTEM OFFICE

I. INTRODUCTION

The Minnesota Community College System Office is the central administrative office for the eighteen community colleges. The system is governed by a nine member board. Board members are appointed by the Governor and confirmed by the senate. The chancellor is appointed by the board, and serves as the chief executive officer of the Community College System. Dr. Gerald Christenson has served as chancellor since July 1, 1983.

Our audit was limited to a review of the Community College System Office's Information Services Division, the individual retirement account plan, and systemwide processing of personnel/payroll and disbursements.

The Information Services Division provides central data processing for the Community College System. Its mission is "to provide the Minnesota Community College System with data and information in an accurate and timely fashion." The Information Services Division operates six major production systems. We reviewed general data processing controls in place within the division. We also reviewed application controls over two of the division's production systems: the student information system and the student payroll system. The student information system provides academic history and demographic data on students. It also performs admission, registration, tuition calculations and billing functions. It accumulates student grades and generates transcripts on demand.

The individual retirement account plan was established by the Legislature for state university and community college faculty, counselors, librarians, and unclassified administrators hired after June 30, 1989. Eligible employees with less than three years of allowable service who belong to the Teachers Retirement Association may elect a transfer to the individual retirement account plan. The plan operates pursuant to Minn. Stat. Chapter 354B. Under the retirement plan, eligible employees may purchase annuity contracts through approved financial institutions. The purpose of the plan is to enhance employee social security benefits during retirement. Currently, employer and employee contributions are equal to 4.5 percent of salary for coordinated members and 8.5 percent of salary for basic members.

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Community College System does not adequately control access to its computer system.

The Community College System limits access to its computer system and programs through a security program developed by the Information Services Division. The division's production control supervisor serves as the system security officer. The division controls clearance to the various applications that run on the system by issuing user ID numbers to authorized employees. Each community college selects a data processing coordinator. The data processing coordinator is responsible for updating the security files for new operators and cancelling employees who transfer or terminate employment. The Community College System has not controlled access in the following areas:

- The Community College System's computer security program does not sufficiently limit access. The system developed its own security program to interface with its applications. The security program does not automatically shut off access to the system if no one has used the terminal within a given time period. The program does not require users to change their ID numbers at designated intervals such as 30 or 45 days. In addition, the security program does not generate security violation reports to detect unauthorized access attempts. These deficiencies increase the risk that errors or irregularities could occur and not be prevented or detected. The weaknesses compromise the integrity of the data by not controlling access. The system's security program does not contain the same controls that a standard purchased package does. The Community College System should review their current security program and make the necessary changes to conform with the industry's standards.
- The Community College System has not limited access to user ID numbers. A college data processing coordinator can request a list of all operators cleared at the campus. However, the list includes all user ID numbers, as well as employee names and functions. The data processing coordinator has no need to know all user IDs and should not be given that information. In addition, because the Information Services Division mails the list to the campus, it is possible that other unauthorized individuals could gain access to the ID numbers. To ensure the integrity of the system, user IDs should only be known to the user and the Information Services Division security office. Thus, the colleges may establish responsibility with the user for any use of that person's ID number.
- The Community College System has not required the colleges to periodically review user clearances. Each college has the responsibility and discretion to monitor user access. Although

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the college data processing coordinator can request a list of authorized users, the system office does not periodically require each college to formally review and recertify users. Requiring a periodic certification would assure that each college reviews user access to determine whether all users are still valid and whether they require the same access to the system. It would also ensure that the system office suspends user IDs for employees who have terminated.

- The Community College System does not have written policies for access controls. Formal policies would help to define the colleges' responsibilities for suspending user IDs for terminations or leaves of absences, sharing user IDs, changing user IDs, and recertifying users. Without written policies, colleges are at greater risk that unauthorized individuals may gain access to the computer system. Written procedures would outline the policies management feels is necessary to ensure the integrity of the system. Written procedures would also provide authority for decisions made and lend consistency to all users.

RECOMMENDATIONS

- The Community College System should institute sufficient computer access controls to properly secure user ID numbers.
- The Community College System should develop policies for all aspects of security access to the computer system.

2. Student information system cashier ID numbers are not safeguarded.

Controls over the student information system ID numbers need to be improved. Currently, each campus business manager assigns cashier ID numbers. Along with a generic user ID number, the cashier ID numbers are used to allow campus cashiers to enter transactions onto the student information system. Since the business manager also knows the college's generic user ID numbers, the business manager would be able to make unauthorized transactions and conceal them under another person's ID number.

RECOMMENDATION

- The Community College System needs to control cashier ID numbers. The system office security officer, rather than the business manager, should assign cashier ID numbers to users.

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3. The Community College System does not effectively control tuition deferment codes.

The Community College System does not prescribe standard tuition deferment codes. Community College Board policy allows students to defer paying their tuition prior to the start of classes under certain circumstances. To acknowledge the deferment, colleges enter a deferment code on the student's payment record within the student information system. For the most part, each college can establish any deferment codes they wish, as long as each code is one letter. Because of this discretion, colleges may use different letters to represent the same type of deferment. Establishing standard deferment codes would allow the system to generate special reports to monitor the use and extent of various types of deferments. The Community College System staff would be able to use the reports to determine the extent colleges use the codes and the amount of deferments issued for each code. They would also be able to verify that colleges are collecting tuition in accordance with applicable board policies.

RECOMMENDATION

- The Community College System should establish standard tuition deferment codes.

4. The system office does not use computer edits in its student payroll process.

The student payroll system does not run edits on significant student payroll information, such as hours and payrate limits. The system office processes the biweekly student payroll from information submitted by the colleges. Currently, system office employees manually review payroll certification reports for unusual or unreasonable amounts. To improve efficiency and consistency, the student payroll system should contain edits, programmed on key information. The payroll employees would then only need to review and pursue these exceptions. This control would save the payroll employees time and ensure that exceptions were consistently detected.

RECOMMENDATION

- The Community College System should establish edits and limit checks on the student payroll application to monitor significant fields.

5. Controls over transferred retirement funds need improvement.

The system office receives checks from the Teachers Retirement Association for transferred retirement funds. Under certain circumstances, employees may choose to transfer their retirement contributions from the Teachers Retirement Association to the Community College System individual retirement account plan. The system office receives checks from the

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Teachers Retirement Association for transferring participants' retirement funds. When time permits, the disbursement supervisor endorses the checks payable to the insurance carrier selected by the employee. She sends each check, along with supporting documentation, to the carrier. This process is cumbersome and subjects these funds to unnecessary risk of loss or theft. To provide better control, the Teachers Retirement Association should transfer the retirement contributions directly into the individual retirement plan account. The system office should, in turn, generate checks made payable to the insurance carriers.

RECOMMENDATION

- The system office should work with the Teachers Retirement Association to have funds transferred directly into the Community College System retirement fund account.

6. Payroll duties are inadequately segregated.

The director of fiscal services and the disbursements supervisor at the system office both have authorization to perform all personnel and payroll functions. The authorizations were intended to be a backup when other employees were on leave. However, these authorizations allow the employees to perform both personnel and payroll functions. In fact, in some cases the disbursement supervisor has both signed employee action forms and signed payroll precertification reports. These duties are incompatible.

RECOMMENDATION:

- The system office should change the authorizations so the director of fiscal services and the disbursements supervisor cannot perform both personnel and payroll functions.



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May 31, 1991

Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building
St. Paul, Minnesota 55155

Dear Jeanine:

In response to the Legislative Auditors' findings and recommendations contained in the audit report for the System audit of selected activities as of January 1991, the following action will be taken:

Finding 1

The Community College System does not adequately control access to its computer system.

RECOMMENDATIONS

- A. The Community College System should institute sufficient computer access controls to properly secure user ID numbers.
- B. The Community College System should develop policies for all aspects of security access to the computer system.

RESPONSE

The Information Services Executive Committee is developing a policy statement for computer and information security within MCCS. The target date for policy approval is March 1992. Appropriate security measures (as defined by the policy) will be implemented by January 1993.

The person responsible for implementing the above resolution is David Godderz, Director of Information Services.

Finding 2

Student information system cashier ID numbers are not safeguarded.

RECOMMENDATION

The Community College System needs to control cashier ID numbers. The System Office security officer, rather than the business manager, should assign cashier ID numbers to users.

Anoka-Ramsey • Arrowhead Region (Hibbing, Itasca, Mesabi, Rainy River, Vermilion) • Austin
Clearwater Region (Brainerd, Fergus Falls, Northland) • Inver Hills • Lakewood • Minneapolis • Normandale
North Hennepin • Rochester • Willmar • Worthington

Minnesota Community Colleges Are Equal Opportunity/Affirmative Action Institutions

Jeanine Leifeld
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RESPONSE

A new procedure will be established, effective Fall Quarter 1991, requiring that cashier ID numbers be assigned by the System Office, fiscal services security officer.

The person responsible for implementing the above resolution is Glenn Wood, Director of Fiscal Services.

Finding 3

The Community College System does not effectively control tuition deferment codes.

RECOMMENDATION

The Community College System should establish standard tuition deferment codes.

RESPONSE

Standard deferment codes will be established within the student information system. All colleges will be required to use these codes effective Winter Quarter 1992.

The person responsible for implementing the above resolution is Ron Williams, Vice Chancellor of Instruction and Student Services.

Finding 4

The System Office does not use computer edits in its student payroll process.

RECOMMENDATION

The Community College System should establish edits and limit checks on the student payroll application to monitor significant fields.

Jeanine Leifeld
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RESPONSE

A service request has been forwarded to Information Services to establish edits for both the number of hours to be paid and the students hourly rate. Exceptions will be flagged on the payroll audit report.

The person responsible for implementing the above resolution is Glenn Wood, Director of Fiscal Services. Expected date of completion is September 1, 1991.

Finding 5

Controls over transferred retirement funds need improvement.

RECOMMENDATION

The System Office should work with the Teachers Retirement Association to have funds transferred directly into the Community College System retirement fund account.

RESPONSE

We have requested that the Teachers Retirement Association transfer funds directly into the Individual Retirement Account Plan, from which the System Office will generate a check to the appropriate insurance carrier.

The person responsible for implementing the above resolution is Elaine Stump, Disbursements Supervisor. Expected date of completion is July 1, 1991.

Finding 6

Payroll duties are inadequately segregated.

RECOMMENDATION

The System Office should change the authorizations so the Director of Fiscal Services and the Disbursements Supervisor cannot perform both personnel and payroll functions.


Jeanine Leifeld
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RESPONSE

A request to delete the authorization for Elaine Stump, Disbursements Supervisor, and Glenn Wood, Director of Fiscal Services, to enter transactions for the "Regular Payroll," "Expense Transfer," and "Cost Code" was submitted to the Department of Finance on May 28, 1991.

The person responsible for implementing the above resolution is Glenn Wood, Director of Fiscal Services.

Sincerely,



Neil Christenson
Deputy Chancellor

NC:dje

cc: Gerald W. Christenson, Chancellor
Ron Williams, Vice Chancellor of Instruction and Student Services
Glenn Wood, Director of Fiscal Services
David Godderz, Director of Information Services
Elaine Stump, Disbursements Supervisor
Jim Harris, Internal Auditor

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