

**INVER HILLS COMMUNITY COLLEGE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1990**

JULY 1991

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

91-40

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

INVER HILLS COMMUNITY COLLEGE

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: July 11, 1991

No. 91-40

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: tuition and fees, federal revenue, bookstore revenue, employees payroll expenditures, and federal financial aid expenditures.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

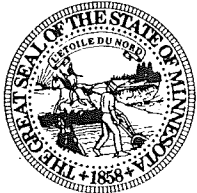
We found five areas where the internal control structure needed improvement:

- The college needs to improve controls over student financial aid payments.
- The college needs to improve controls over bookstore purchasing and disbursing.
- The college needs to document bookstore register voids.
- The college does not deposit St. Paul Learning Center bookstore receipts on a timely basis.
- The college does not have a fixed asset system in place.

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

- Federal cash management at Inver Hills Community College needs improvement.

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

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

Dr. Jerry Isaacs, Acting President
Inver Hills Community College

Audit Scope

We have conducted a financial related audit of Inver Hills Community College as of and for the three years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of Inver Hills Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Inver Hills Community College in effect in January 1991.

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 Inver Hills Community College are free of material misstatements.

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

Federal Financial Aid

We performed tests on Inver Hills Community College's federal financial aid programs in conjunction with our statewide audits of the State of Minnesota's annual financial statements and federal programs. We issued three separate management letter to the Community College System concerning federal financial aid during the audit period. They were dated March 3, 1989, April 26, 1990 and May 3, 1991, and covered fiscal years 1988, 1989, and 1990 respectively. The fiscal year 1990 management letter contained one finding related to Inver Hills Community College. The finding indicated that the college's satisfactory academic progress policy did not contain all of the required federal requirements.

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Management Responsibilities

The management of Inver Hills 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 fee revenue,
- federal revenue,
- bookstore revenue,
- employee payroll expenditures, and
- federal financial aid expenditures.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1, 3 and 4 involving the internal control structure of Inver Hills Community

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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.

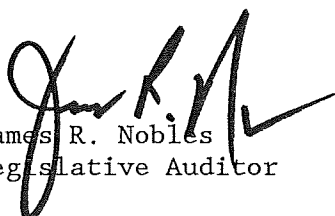
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may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

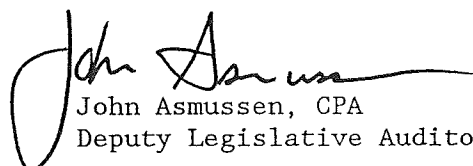
We also noted other matters involving the internal control structure and its operation that we reported to the management of Inver Hills Community College in findings 5 and 6, and at the exit conference held on June 21, 1991.

The results of our tests indicate that, except for the issue discussed in the federal financial aid paragraph, and except for the issue discussed in finding 2, with respect to the items tested, Inver Hills 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 Inver Hills 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 Inver Hills Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 11, 1991.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: April 19, 1991

REPORT SIGNED ON: June 28, 1991

INVER HILLS COMMUNITY COLLEGE

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Lori Pellicci, CPA	Auditor-In-Charge
Amy Jorgenson	Staff Auditor
Brian Stueve	Intern

EXIT CONFERENCE

An exit conference was held with the following staff from Inver Hills Community College on June 21, 1991:

Dr. Jerry Isaacs	Acting President
Larry Margolis	Institutional Affairs Director
Rose Davis	Accounting Technician Supervisor
Ron Wiger	Financial Aid Director
Jim Harris	Community College System Internal Auditor

INVER HILLS COMMUNITY COLLEGE

INTRODUCTION

Inver Hills Community College is under the management and control of the Minnesota State Board for Community Colleges. Dr. Patrick Roche was the president of Inver Hills Community College from September 1984 to June 1991.

Inver Hills 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 controls, including the use of the statewide accounting system. Inver Hills Community College accounts for the majority of these activities, including federal financial aid programs and bookstore transactions, through a financial software package, 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. The summary below shows revenues and expenditures of the college for the three years ended June 30, 1990.

	Fiscal Year		
	1990	1989	1988
Revenues:			
Tuition and Fees	\$ 3,834,408	\$3,380,206	\$2,861,826
Federal	1,332,409	1,062,000	795,316
Bookstore	1,024,913	907,410	737,688
Other	<u>550,992</u>	<u>497,710</u>	<u>413,479</u>
Total Revenues	<u>\$ 6,742,722</u>	<u>\$5,847,326</u>	<u>\$4,808,309</u>
Expenditures:			
Employee Payroll	\$ 7,863,630	\$7,004,190	\$6,040,214
PELL Grants	1,138,737	922,495	619,993
Perkins (New Loans)	79,361	105,730	71,557
Other	<u>2,981,782</u>	<u>2,697,824</u>	<u>2,316,086</u>
Total Expenditures	<u>\$12,063,510</u>	<u>\$10,730,239</u>	<u>\$9,047,850</u>

Sources: Manager's Financial Reports for fiscal years 1990, 1989, and 1988 as of the closing date. Community College System revenue spreadsheet for fiscal years 1990, 1989, and 1988. Statement of representation report for Inver Hills Community College for fiscal years 1990, 1989, and 1988.

INVER HILLS COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Controls over student financial aid payments need improvement.

Inver Hills Community College needs to improve its financial aid disbursement process in four areas. The college does not have sufficient safeguards in place to protect the financial aid computer system from misuse. The business office does not record actual financial aid disbursements dates. The financial aid office has access to financial aid loan checks. Finally, students sign Perkins loan promissory notes in advance.

Inver Hills Community College does not have sufficient access controls over the computer system it uses to track student financial aid and to generate checks. It has not controlled system access with the use of passwords, hardware locking mechanisms, or other security measures. To prevent misuse of the system and ensure that financial aid disbursements are valid, Inver Hills should implement security measures for the computer system.

The business office does not comply with the federal regulation which require institutions to keep records of the dates of Pell grant payments. The business office does not require the students to sign and date a disbursement record when they pick up their financial aid. To ensure accurate records, the business office should document actual financial aid disbursement dates.

The financial aid office has access to most incoming Stafford loan checks. The financial aid office both authorizes Stafford loans and receives most incoming loan checks from banks. Because the financial aid office both authorizes loans and has access to some checks, a weakness exists in the internal control structure over loans. To prevent misuse, the business office should directly receive and distribute all loan checks.

Students sign Perkins loan promissory notes before receiving their loan checks. Perkins loan recipients must sign a promissory note to receive loan funds. Students at Inver Hills Community College sign the promissory note at the financial aid office and then receive their loan checks at the business office. These two events do not always occur on the same day. Federal regulations prohibit schools from requiring student to sign promissory notes in advance. To avoid unnecessary liability, students should sign the promissory note only at the time they receive the loan funds.

RECOMMENDATIONS

- Inver Hills Community College should install a security system to restrict unauthorized access to the financial aid computer system.

INVER HILLS COMMUNITY COLLEGE

RECOMMENDATIONS (Continued)

- Inver Hills Community College should keep records of actual financial aid disbursement dates.
- The business office should receive all Stafford loan checks directly. The financial aid office should not have access to any checks.
- Inver Hills Community College should have students sign the Perkins promissory notes when they receive their loans.

2. Federal cash management at Inver Hills Community College needs improvement.

Inver Hills Community College has maintained excess cash balances in the federal checking account. For example, during December 1990, the average daily balance in the accounting records was \$27,464. Examination of bank statements for the audit period revealed large minimum balances as well.

The business manager requests federal cash once a week and makes financial aid payments once a week. During the audit period, he failed to decrease the amount he requested for an estimate of those students who have financial aid awards, but who may decide to drop classes or are slow to pick up their aid. Federal regulations require that federal aid recipients limit cash advances to the minimum amounts needed and time them to be actual, immediate cash requirements.

RECOMMENDATION

- Inver Hills Community College should limit federal cash requests to immediate need. The business manager should request funds as often as necessary to prevent excessive cash balances.

3. Inver Hills Community College needs to improve controls over bookstore purchasing and disbursing.

Inver Hills Community College's bookstore does not maintain adequate documentation over purchasing and receiving. In addition, they do not pay their invoices promptly. College records show that bookstore purchases amounted to about \$2,000,000 for fiscal years 1988 through 1990.

The bookstore staff does not complete purchase orders to confirm book orders, clothing purchases, or greeting card orders. Although they receive confirming orders from the clothing vendors, the staff do not keep

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them. Verbal orders not confirmed in writing could result in misunderstandings about the items ordered. Furthermore, when a shipment arrives, staff cannot verify the quantities and price against the purchase order. Without this verification, the bookstore could receive incorrect quantities or unordered items, or pay incorrect prices.

In addition, the bookstore staff does not maintain evidence of the receipt of incoming merchandise. Currently, the bookstore assistant discards the packing slips after authorizing the related invoice. By retaining the packing slip, bookstore staff can verify what they actually received if questions should arise. The community college board also requires each college to retain packing slips or other evidence of receipt of goods.

The bookstore manager is also not paying invoices promptly. When the bookstore is busy they do not pay invoices. Instead, they hold them until a later date. The manager paid many invoices from 38 to 133 days after receipt. The manager should pay invoices on a timely basis to take advantage of any available discounts and to avoid problems with the vendors.

RECOMMENDATIONS:

- Bookstore staff should use purchase orders for all bookstore purchases.
- The bookstore should keep all packing slips or other evidence of the receipt of goods.
- The bookstore staff should pay all invoices promptly.

4. Controls over bookstore register voids need improvement.

The Inver Hills Community College bookstore cashiers do not adequately document and review voided transactions. The cashiers ring up purchases on the bookstore cash register. However, it may be necessary to void a transaction because of a keying error or because the student had insufficient funds to pay for the purchase. When a cashier voids a transaction, the cashier does not retain the void for documentation but rather continues with the next transaction. Therefore, the voids are neither initialled and explained by the cashier nor reviewed by a second bookstore employee.

Proper documentation of voids is important because these voided transactions represent decreases in the recorded cash receipts. Therefore, each void should indicate why the void was necessary, as well as who made the void. A second bookstore employee should review and approve all significant voids.

RECOMMENDATION

- The bookstore cashiers should document voids, including the reason for the void and the approving signature of a second bookstore employee.

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5. Inver Hills Community College does not deposit St. Paul Learning Center bookstore receipts on a timely basis.

The Inver Hills Community College bookstore does not deposit St. Paul Learning Center bookstore receipts promptly. The college bookstore sends textbooks to be sold at the St. Paul Learning Center. In return, the learning center sends incoming bookstore sales receipts and supporting documentation to the college on a daily basis. However, if the bookstore staff is busy, the bookstore manager does not reconcile the incoming cash to the cash register tape nor does she deposit the receipts at the bank. Instead, she stores the money in a safe until she has time to do the required reconciliations. During January 1991, she waited from 3 to 11 days before depositing the learning center receipts. Because of the sensitivity of cash, it is important to deposit the funds on a daily basis.

RECOMMENDATION:

- Inver Hills Community College should deposit all bookstore receipts daily.

6. Inver Hills Community College does not have a fixed asset system in place.

The college does not have a system in place for monitoring its fixed assets. The Department of Administration abolished the statewide fixed asset system in January 1991. It allowed agencies sufficient time to find alternative systems. However, Inver Hills Community College has not implemented its own system to record and monitor fixed assets. In addition, it does not perform physical inventories and spot checks. A fixed asset policy helps ensure that the college properly records and effectively monitors its fixed assets. Completing physical inventories and spot checks will ensure that the assets are secure, and the inventory records are accurate.

RECOMMENDATIONS

- Inver Hills Community College should implement a fixed assets inventory system.
- Inver Hills Community College should perform periodic physical inventories of both its material and sensitive fixed assets.

INVER HILLS Community College

8445 College Trail • Inver Grove Heights, MN 55076-3209

June 24, 1991

Ms. Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Centennial Building
First Floor South
658 Cedar Street
St Paul, MN 55155

Dear Ms. Leifeld:

Following is the College's response to your office's findings and recommendations as a result of your financial and compliance audit of Inver Hills Community College for the three years ended June 30, 1990.

1. Controls over student Financial aid payments need improvement.

Recommendations:

Inver Hills Community College should install a security system to restrict unauthorized access to the financial aid computer system.

Response - Rose Davis contacted the software developer to develop a password security system. This system is now operational.

Inver Hills Community College should keep records of actual financial aid disbursement dates.

Response - Presently the students receive a financial aid release card from the financial aid office. This card show the quarter and type of aid being released and is date stamped by the Financial Aid Office (FAO) with the date the card is picked up at the FAO. The Business Office will also date the release card with the date the checks are given to the students. The date stamping of the release card by the Business Office has been implemented by Rose Davis.

The Business Office should receive all Stafford loan checks directly. The financial aid office should not have access to any checks.

Response - Rose Davis has reviewed with the College Mailroom the need to forward all incoming loan checks to the Business Office. The Financial Aid Office will also forward all loan checks to the Business Office unopened. This response has been implemented.

Inver Hills Community College should have students sign the Perkins promissory notes when they receive their loans.

Response - The Business Office will have the students receiving Perkins loans sign the promissory note at the time they receive their loans. Rose Davis will implement this response in time for the Fall Quarter, 1991 disbursements.

2. Federal cash management at Inver Hills Community College needs improvement.

Recommendation:

Inver Hills Community College should limit federal cash requests to immediate need. The business manager should request funds as often as necessary to prevent excessive cash balances.

Response - The College will respond to this recommendation with two actions.

- A. Larry Margolis will review historical disbursement trends and adjust cash requests downward to approximate the level of checks being cashed daily. In addition, Larry will request funds daily if it becomes necessary. The analysis of historical disbursement trends will be completed by 7/31/91 with implementation of the revised cash management system to begin during August of 1991.
- B. Ron Wiger will periodically review those financial aid checks prepared and not yet picked up by the students. In those cases, he will notify the students involved to pick up their checks by a specific date or their checks will be voided. This system of notification will be implemented for Fall Quarter, 1991 in conjunction with the implementation of the new Community College's SAFE financial aid system.

3. Inver Hills Community College needs to improve controls over bookstore purchasing and disbursing.

Recommendation:

Bookstore staff should use purchase orders for all bookstore purchases.

Response - Nancy Johnson has implemented the use of purchase orders for all purchasing.

The bookstore should keep all packing slips or other evidence of the receipt of goods.

Response - Ron Drude will be responsible for insuring all packing slips or other evidence of the receipt of goods be retained and attached to invoices. This response has been implemented.

The Bookstore staff should pay all invoices promptly.

Response - Nancy Johnson will be responsible for monitoring the promptness of invoice payments. She will initiate a 2-week cycle of preparing bills for payment. In addition, invoices will be screened initially to insure that the Bookstore takes advantage of all available discounts. This response will be implemented beginning in July of 1991.

4. Controls over bookstore register voids need improvement.

Recommendation:

The bookstore cashiers should document voids, including the reason for the void and the approving signature of a second bookstore employee.

Response - Both the head and evening cashiers will be responsible for implementing this recommendation. Nancy Johnson will review the voids at the time the daily ringout is performed. The Bookstore implemented this response in April of 1991.

In the future, if we replace our current computer system software, we will request a report which will summarize the voided transactions and include that report with the daily cash report.

5. Inver Hills Community College does not deposit St Paul Learning Center bookstore receipts on a timely basis.

Recommendation:

Inver Hills Community College should deposit all bookstore receipts daily.

Response - Sharon Henry will be responsible for depositing St. Paul Learning Center receipts daily or in requesting Larry Margolis to prepare the deposits, when her schedule does not permit daily depositing. This recommendation will begin with Fall Quarter, 1991.

6. Inver Hills Community College does not have a fixed asset system in place.

Recommendations:

Inver Hills Community College should implement a fixed assets inventory system.

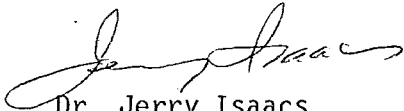
Response - Larry Margolis has implemented a PC-based fixed asset inventory system forwarded to the College from Materials Management. The College submitted its first monthly report to Materials Management for the month ending 5/31/91. To maintain the system, Larry will forward inventory stickers and purchase order information to the individual responsible for the equipment, asking them to return the purchase order along with other inventory information to the Business Office. The Business Office will then periodically enter additions into the system. For retirements or location changes, Larry will periodically solicit staff members through our Staff Bulletins for information on surplus, obsolete, stolen, etc. equipment and then take appropriate action to either transfer for retire the equipment.

Inver Hills Community College should perform periodic physical inventories of both its material and sensitive fixed assets.

Response - Larry Margolis will supervise periodic physical inventories of the College's fixed assets. The goal is to set up a monthly schedule of physical inventories and to begin this cycle with July of 1991.

We hope the above responses will be satisfactory. If you have any questions or need more information, please call Larry Margolis at 450-8522.

Sincerely,



Dr. Jerry Isaacs
Acting President

JI/jk

cc: Dr. Gerald Christenson, Chancellor
Ron Wiger
Larry Margolis
Nancy Johnson