COMMUNITY COLLEGE SYSTEM OFFICE
  COMPUTER SERVICES DIVISION
FINANCIAL AUDIT
AS OF FEBRUARY 1992

JULY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-46

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

COMMUNITY COLLEGE SYSTEM OFFICE
COMPUTER SERVICES DIVISION

FINANCIAL AUDIT
AS OF FEBRUARY 1992

Public Release Date: July 24, 1992   No. 92-46

OBJECTIVE:

- EVALUATE INTERNAL CONTROL STRUCTURE OVER SELECTED ACTIVITIES: Computer Services Division general data processing controls and application controls over the student information system, systemwide processing of personnel/payroll, federal grant cash management, and systemwide tuition receipt reconciliations.

CONCLUSIONS:

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

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

- Student information system cashier and user ID numbers are not safeguarded.

- Controls over tuition waivers and tuition assessment adjustments are not adequate.

- The student information system does not have adequate controls over its cash reconciliation reports.

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

- The Community College System needs to improve its federal cash management procedures.

We found one area where the system office has not complied with finance-related legal provisions:

- The system office has not complied with federal cash management regulations.

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Geraldine Evans, 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 February 1992. Our audit was limited only to a portion of the Community
College System Office, as discussed in the next paragraph and the Introduction. We con-
ducted 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 Computer
Services Division and a review of certain services performed by the System Office on behalf
of the entire system. Specifically, we reviewed the following:

- Computer Services Division general data processing controls and application con-
  trols over the student information system;

- Systemwide processing of personnel/payroll;

- Federal grant cash management; and

- Systemwide tuition receipts reconciliations.

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

Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Dr. Geraldine Evans, Chancellor
Members of the Community College Board
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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:

- 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 6 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 findings 2, 3, and 4 are material weaknesses in the student information system.
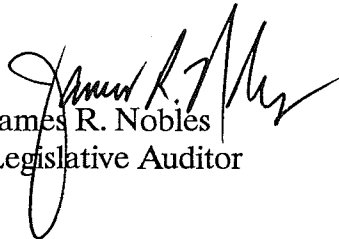
Representative Ann Rest, Chair
Members of the Legislative Audit Commission
Dr. Geraldine Evans, Chancellor
Members of the Community College Board
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We also noted other matters involving the internal control structure and its operation that we reported to the management of the Community College System Office at the exit conference held on July 6, 1992.
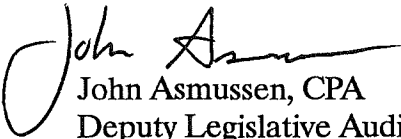
Except for the issue discussed in finding 6, nothing came to our attention that caused us to believe that the System Office had not complied, in all material respects, with laws or regulations applicable to our audit scope.

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 July 24, 1992.

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: February 28, 1992

Report Signed On: July 16, 1992

Community College System

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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
Judy Cammack, CPA	Auditor-in-Charge
Dan Quandt, CPA	Senior Auditor
John Wicklund, 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 July 6, 1992:

Dr. Gerald Evans	Chancellor
Dr. Steven Wallace	Chair of Computer Services Executive Committee
Dale Jarrell	Director of Computer Services
Jim Dierich	Assistant Director of Computer Services
Glenn Wood	Director of Finance
Scott Erickson	Assistant Director of Finance
Jim Harris	Internal Auditor

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 served as chancellor from July 1, 1983 to June 30, 1992. Dr. Geraldine Evans is the current chancellor.

Our audit was limited to a review of the Community College System Office's Computer Services Division, and the systemwide procedures for personnel/payroll, federal grant cash management and tuition receipts reconciliations.

The Computer 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 Computer Services Division operates seven major production systems. We reviewed general data processing controls in place within the division. We also reviewed application controls over the student information 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.

Current Findings and Recommendations

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1. **PRIOR FINDING NOT RESOLVED: The Community College System does not adequately control access to its computer system.**

The Community College System limits access to its computer system through a security program developed by the Computer Services Division. The division's production control supervisor serves as the general 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 several 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 has only one level of security, the user ID. There are no passwords associated with the individual user IDs. In addition, the system allows a single user ID to be logged onto more than one terminal at the same time. Third, the security program does not automatically sign off users if there has been no activity for a given period of time. Finally, the system does not generate violation reports to detect unauthorized access attempts. All of 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 as a standard purchased package. The Community College System should review its current security program and make the necessary changes to conform with the industry's standards.

The Community College System has not safeguarded access to user ID numbers. When a new user is added to the system, the security officer informs the campus data processing coordinator of the ID number, rather than informing the user directly. Also, college data processing coordinators can request a list of all operators cleared at the campus. This list can include the user ID numbers if the data processing coordinator requests it. The data processing coordinator has no need to know all user IDs and should not be given that information. To ensure the integrity of the system, user IDs should only be known to the user and the Computer Services Division security office. Users then may be held accountable for any use of their ID number.

The Community College System has not required the colleges and the system office to periodically review user clearances. Each college has the responsibility and discretion to monitor user access. Although the college data processing coordinator can request a list of

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authorized users, the Computer Services Divisions does not periodically require each college and the system office to formally review and recertify users. Requiring a periodic certification would assure that all users are still valid and help to determine whether individual access requirements are still the same.

The Community College System does not have written policies for access controls. Formal policies would help to define the respective responsibilities of the colleges and the system office for suspending user IDs for terminations or leaves of absences, sharing user IDs, changing user IDs, and recertifying users. Without written policies, there is a greater risk that unauthorized individuals may gain access to the computer system. Written procedures would outline the policies management feels are 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. PRIOR FINDING NOT RESOLVED: Student information system cashier and user ID numbers are not safeguarded.

Controls over student information system ID numbers need to be improved. Currently, each campus business manager assigns cashier ID numbers to employees. Users need a cashier ID number to allow them to post payments and deferments to the student information system. The system can assign a cashier ID number to either an employee's user ID number or a generic user ID number. Since the business managers know the employees' user IDs and cashier IDs, it would be possible for a business manager to make unauthorized transactions and conceal them under another person's ID number.

Recommendation

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

Community College System

3. Controls over tuition waivers and tuition assessment adjustments are not adequate.

The Community College System has not implemented adequate controls over tuition waived for some employees and their families. In 1992, it modified the student information system because of expanded eligibility for tuition waivers. However, the modifications created some serious control weaknesses.

The collective bargaining agreements permit community college employees and their family members to attend a limited number of classes without paying tuition. Beginning in fiscal year 1992, this benefit was expanded to include most community college employees. Previously, only faculty and administrators were eligible for the benefit. The system office had to modify the student information system to accommodate the expanded eligibility for tuition waivers. However, the system modifications were not implemented with sufficient controls. As a result, the colleges are vulnerable to having tuition waived for ineligible students.

We are concerned about the weaknesses in the system access controls which govern tuition waivers.

- The system modification permits employees with standard registration clearance to waive tuition for most students. Because tuition waivers are sensitive transactions, we believe the system clearances must be limited.

- Another feature was added to the system which allows employees with a special access code to change system records from a fee credit status to a waived credit. The ability to change tuition status represents a high risk to the system, because it bypasses other standard controls.

These two control weaknesses are more serious because the system does not generate exception reports. Without these reports, the colleges are unable to review tuition waivers granted and changes in tuition status. Thus, the colleges could not detect tuition waived for ineligible students or improper changes in tuition status.

Recommendations

- *The Community College System should require a special authorization to enter any type of waiver.*

- *The Computer Services Division should develop reports for the colleges to monitor waived credits and adjustments made to credits on the tuition assessment records.*

4. The student information system does not have adequate controls over its cash reconciliation report.

There are not adequate controls to ensure that the cash reconciliation report includes all appropriate transactions. As a result, it is possible for staff at the colleges to perpetrate and conceal irregularities.

The cash reconciliation report plays a critical role in the colleges' control over tuition receipts. Its purpose is to give colleges a daily summary of tuition payments posted to the student information system. Staff at the colleges reconcile the total payments shown on this report to the cash received and deposited for the day. The reconciliation serves to detect cash shortages caused by error or irregularity.

The cash reconciliation report does not include payments posted to weekend or future accounting dates. Employees can set the accounting date to a weekend or future date, take payments, and mark student accounts as paid. The current cash reconciliation procedure would not detect misappropriations or irregularities. To be useful, the cash reconciliation reports should include all payment transactions, including transactions posted to weekends and future accounting dates.

Recommendation

- *The Community College System should adjust the cash reconciliation reports to include transactions with weekend and future accounting dates.*

5. PRIOR FINDING NOT RESOLVED: 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.*

6. **PRIOR FINDING NOT RESOLVED: The Community College System needs to improve federal grant cash management procedures.**

The Community College System's procedures for determining federal grant cash needs are not adequate. The System Office provides accounting services for the colleges with non-financial aid federal grants. The grant supervisor monitors the cash balances of each program and informs the colleges when to request additional federal funds. However, we were told that the grant supervisor often asks the college for more federal funds than needed because the colleges do not always request the funds from the federal government timely. Federal Treasury Circular 1075 states that federal aid recipients should limit cash advances to the minimum amounts needed and time them to be in accord with actual, immediate cash requirements for a specific program.

Due to the commingling of all receipts, federal programs with positive cash balances are covering the costs of programs with negative balances. For example, Itasca Community College operated an adult education grant (CFDA 84.002) for several months during fiscal year 1991 before the program received any cash to cover those expenditures.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of the Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding techniques agencies will use, and to negotiate a state/federal cash management agreement.

Recommendation

- *The Community College System should develop cash management procedures to make sure that cash balances for federal programs are adequate, but not excessive.*

Minnesota
Community Colleges

July 13, 1992

Jeanine Leifield, CPA
Audit Manager
Office of Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Jeanine:

In response to the Legislative Auditors' findings and recommendations contained in the June 24, 1992 audit report for the system audit of the Community Colleges System Office's Computer Services Division, the system wide procedures for personnel/payroll, federal grant cash management and tuition receipts reconciliation, the following action will be taken:

FINDING #1:

PRIOR FINDING NOT RESOLVED: The Community College System does not adequately control access to its computer systems.

RECOMMENDATION:

o   The Community College System should institute sufficient computer access controls to properly secure user ID numbers.

o   The Community College System should develop policies for all aspects of security access to the computer system.

RESPONSE:

Computer Services concurs with this recommendation.   The following changes will be made by January 1, 1993.

a.   A new security system (CICS Alert Security) has been acquired and will be installed on the EX-38 Mainframe by September 1, 1992. This system will provide Computer Services with the ability to better limit and control access to mainframe files.

b.   An official procedure defining the procedure for administering user IDs will be developed by the Computer Services Division and be implemented by January 1, 1993.

c.   The College Technical Coordinators (CTC) will be assigned responsibility to follow procedures that monitor and control user ID authorization for their respective college.   The CTC will also be assigned responsibility to assure that user IDs for ex-employees get deleted.

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
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d.   Actual entry of user ID and password information will be
     controlled by the Production Control Supervisor in the
     Computer Services Division.

e.   Each user will be assigned a unique user ID with a beginning
     password that is only known by that individual. No lists of
     user IDs and passwords will be generated.

The person responsible for implementing the above resolution is Dale Jarrell,
Director of Computer Services.

FINDING # 2:

PRIOR FINDING NOT RESOLVED: Student Information System cashier and user ID
numbers are not safeguarded.

RECOMMENDATION:

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

RESPONSE:

a.   This finding will be partially resolved when the new user ID
     and password software is installed, as defined in Finding #1.

b.   The College Technical Coordinators (CTC) will be assigned
     responsibility to develop procedures that monitor and control
     cashier ID authorization for their respective college. The
     CTC will also be assigned responsibility to assure that user
     and cashier IDs for ex-employees get deleted.

The person responsible for implementing the above resolution is Dale Jarrell,
Director of Computer Services.

FINDING #3:

Controls over tuition waivers and tuition assessment adjustment are not adequate.

RECOMMENDATION:

o   The Community College System should require a special
     authorization to enter any type of waiver.

o   The Computer Services Division should develop reports for the
     colleges to monitor waived credits and adjustments made to
     credits on the tuition assessment records.

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RESPONSE:

1.   Reports that provide detailed information on the waived
     credits are currently being developed and will be available
     Fall Quarter, 1992.

2.   The Student Information System will be modified to include an
     additional authorization, at the task level, for tuition
     waivers.   This level of authorization will be assigned and
     controlled by the college registrar.

The person responsible for implementing the above resolution is Dale Jarrell,
Director of Computer Services.

FINDINGS # 4:

The Student Information System does not have adequate controls over its cash
reconciliation report.

   RECOMMENDATION:

   The Community College System should adjust the cash reconciliation reports
   to include transactions with weekend and future accounting dates.

   RESPONSE:

   Presently, Computer Services waits for a college to request a daily CASH
   RECONCILIATION REPORT.   This process will be modified to make daily
   reports automatic and mandatory.

   Computer Services will also modify the system to disallow the entry of any
   future date that is more than 30 days after the current date.   This
   change will be implemented by January 1, 1993.

The person responsible for implementing the above resolution is Dale Jarrell,
Director of Computer Services.

FINDING # 5:

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

   RECOMMENDATION:

   The Community College System should establish standard tuition
   deferment codes.

   RESPONSE:

   A standard set of deferment codes will be established by the
   beginning of Fall Quarter 1992.

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

FINDING # 6:

<u>The Community College System needs to improve federal grant cash management procedures.</u>

RECOMMENDATION:

The Community College System should develop cash management procedures to make sure that cash balances for federal programs are adequate, but not excessive.

RESPONSE:

Following discussions with a member of the audit staff, a process of reviewing each individual grant's cash balance on a two-week cycle was initiated. Direct entry of receipts by our colleges' business office staff will result in more timely and accurate cash balance data, but will also increase the workload on our campuses. One of the "costs" of central accounting is delays caused by mail, competing priorities, and staff shortages. Another may be interest paid to the federal government in lieu of very limited staff time available on our campuses to monitor federal cash balances. We will continue to seek methods of minimizing the State's cost in implementing the federal cash management requirements.

The person responsible for implementing the above resolution is Glenn Wood, Director of Finance. The timing is ongoing.

Sincerely,

Dr. Geraldine Evans
Chancellor

cc: Jim Harris, Internal Auditor
        Dale Jarrell, Director Computer Services
        Steve Wallace, President Inver Hills Community College
        Glenn Wood, Director Finance

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