

**VERMILION COMMUNITY COLLEGE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

JULY 1992

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

VERMILION COMMUNITY COLLEGE

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: July 30, 1992

No. 92-47

OBJECTIVES:

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Tuition and fees, federal receipts and cash management, residence hall receipts, food service receipts, employee payroll, and federal financial aid expenditures.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

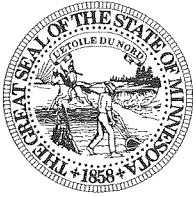
We found three areas where the internal control structure needed improvement:

- Federal cash management at Vermilion Community College needs improvement.
- Vermilion Community College has an inadequate separation of duties over the Perkins Loan management system.
- Vermilion Community College needs to improve internal controls over daily cafeteria receipts.

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

- Vermilion Community College has not complied with federal cash management regulations.
- Vermilion Community College does not adequately manage Perkins Loan funds.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Dr. Geraldine Evans, Chancellor
Community College System

Members of the Community College Board

Dr. Philip J. Anderson, President
Arrowhead Community College Region

Mr. Jon Harris, Provost
Vermilion Community College

Audit Scope

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

As part of our study and evaluation of the internal control structure, we performed tests of Vermilion 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 Vermilion 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 letters to the

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Page 2

Community College System concerning federal financial aid during the audit period. They were dated April 26, 1990, May 3, 1991, and April 29, 1992 and covered fiscal years 1989, 1990, and 1991, respectively. The fiscal year 1990 and 1991 systemwide management letters indicated that Vermilion Community College's satisfactory academic progress policy did not contain all of the necessary federal requirements.

Management Responsibilities

The management of Vermilion 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 into various categories. For all of the internal control structure categories listed below, 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.

- tuition and fee receipts,
- federal receipts and cash management,
- residence hall receipts,

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Page 3

- food service receipts,
- employee payroll expenditures, and
- federal financial aid expenditures.

We also identified three other categories of significant internal control structures: student payroll expenditures, food service expenditures, and bookstore receipts . However, we did not assess control risk for these three areas.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1, 3, and 4 involving the internal control structure of Vermilion Community College. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above are material weaknesses.

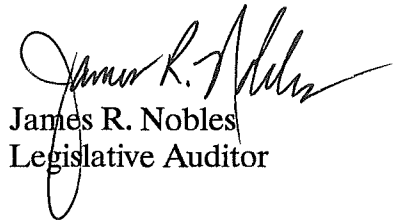
We also noted other matters involving the internal control structure and its operation that we reported to the management of Vermilion Community College in a meeting held on April 10, 1992.

The results of our tests indicate that, except for the issues discussed in the federal financial aid paragraph and in findings 1 and 2, with respect to the items tested, Vermilion 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 Vermilion Community College had not complied, in all material respects, with those provisions.

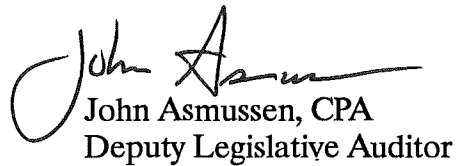
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Page 4

This report is intended for the information of the Legislative Audit Commission and management of Vermilion Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 30, 1992.

We thank the Vermilion Community College staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 10, 1992

Report Signed On: July 22, 1992

Table of Contents

| | Page |
|--------------------------------------|------|
| Introduction | 1 |
| Current Findings and Recommendations | 2 |
| Agency Response | 5 |

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 |
| Mary G. L. Jacobson, CPA | Auditor-in-Charge |
| Beth Hammer, CPA | Auditor |
| John Wicklund, CPA | Auditor |
| Amy Jorgenson | Auditor |

Exit Conference

The findings and recommendations in this report were discussed with the following officials of Vermilion Community College and the Arrowhead Community College Region at an exit conference on April 10, 1992:

| | |
|-------------------|---|
| Jon Harris | Provost |
| Ross Petersen | Campus Services Director |
| Bev Lobe | Senior Account Clerk |
| Dan Przybylski | Financial Aid Director |
| Rose Shober | Assistant Financial Aid Director |
| Theresa Jamnick | Food Service Coordinator |
| Mary Muellerleile | College Services Clerk |
| Bill Maki | Administrative Services Director, Arrowhead Community College Region |

Vermilion Community College

Introduction

Vermilion Community College is part of the Arrowhead Community College Region. The region office consolidated the management of the five community colleges in northeastern Minnesota. The college provost, Jon Harris, reports to the president of the Arrowhead Community College Region.

Operations of Vermilion Community College are financed mainly by student tuition and fees and state appropriations from the General Fund. Vermilion Community College is the only community college in Minnesota that operates a resident hall. The college accounts for its instructional and operating activities on the statewide accounting system. Other activities, such as bookstore transactions, federal financial aid, resident hall, and food services are accounted for through manual records and local bank accounts. These local accounts are exempt from Department of Finance budgeting and accounting requirements. Community college board policies govern the use of these funds.

According to Community College System records, Vermilion Community College collected and spent the following amounts during the audit period:

| | <u>Year Ended June 30</u> | | |
|--------------------|---------------------------|--------------------|--------------------|
| | <u>1991</u> | <u>1990</u> | <u>1989</u> |
| Revenues: | | | |
| Tuition and Fees | \$855,799 | \$881,656 | \$815,978 |
| Federal Receipts | 772,506 | 789,735 | 756,317 |
| Residence Hall | 269,240 | 243,577 | 268,480 |
| Food Service | 246,399 | 228,654 | 171,080 |
| Other | <u>349,259</u> | <u>384,340</u> | <u>236,396</u> |
| Total Revenues | <u>\$2,493,203</u> | <u>\$2,527,962</u> | <u>\$2,248,251</u> |
| Expenditures | | | |
| Employee Payroll | \$2,373,298 | \$2,370,175 | \$2,176,729 |
| Pell Grants | 522,823 | 501,198 | 492,646 |
| Perkins Loans | 15,175 | 49,539 | 44,250 |
| Other | <u>1,618,610</u> | <u>1,622,006</u> | <u>1,550,315</u> |
| Total Expenditures | <u>\$4,529,906</u> | <u>\$4,542,918</u> | <u>\$4,263,940</u> |

Sources: Manager's Financial Reports for fiscal years 1989, 1990, and 1991. Community College System revenue spreadsheets for fiscal years 1989, 1990, and 1991. Vermilion Community College's statements of representation for fiscal years 1989, 1990, and 1991.

Current Findings and Recommendations

1. Federal cash management at Vermilion Community College needs improvement.

Vermilion Community College does not adequately forecast immediate cash needs for the Pell grant program. The problem results from not monitoring the bank balance in the federal account adequately during peak periods and from not ordering cash often enough. This often results in excess federal cash on hand. For example, the college received \$175,000 in Pell grant funds for fall quarter 1990 on August 28. One month later, a \$26,000 balance still remained in the college's federal account. U.S. Treasury circular 1075 requires institutions to limit cash advances to the actual, immediate cash requirements. Federal regulations allow no more than three days from the time an institution receives a federal wire transfer to the time students cash their financial aid checks.

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

- *Vermilion Community College should develop cash forecasting procedures which will enable the college to comply with federal cash management regulations.*

2. Vermilion Community College does not adequately manage Perkins Loan funds.

Vermilion Community College is not managing Perkins funds in three areas. The college uses Perkins Loan funds for unauthorized purposes and the funds are not earning interest. In addition, the college did not deposit its Perkins Loan state match timely.

The college is using Perkins Loan funds to temporarily cover cash shortages in the other federal financial aid programs. Federal regulations only allow the college to use Perkins Loan funds for Perkins Loan uses. However, the college often uses Perkins Loan funds to

Vermilion Community College

cover Pell grant disbursement checks which exceed the amount on hand. The college maintains both Perkins Loan funds and other federal financial aid funds in one checking account. In two of the six quarters we reviewed, the balance in the federal bank account fell below the Perkins Loan account balance, indicating that the college was borrowing Perkins Loan funds.

In addition, Perkins Loan funds are not earning interest. The college keeps Perkins Loan funds in its non-interest bearing federal account. Federal regulations require that institutions place Perkins Loan funds in either an interest bearing account or investment in low-risk income producing securities. Since the federal government allows the college to retain Perkins Loan interest earnings, the college has lost additional funds which it could have awarded to eligible students.

Finally, the college did not deposit the required Perkins Loan state match according to federal regulations. The regulations require each institution to deposit its match in the Perkins Loan account before or at the same time it deposits any federal capital contribution. The college received a federal contribution of \$3,333 on August 31, 1990, but did not deposit the required match until January 3, 1991. The college received another federal cash contribution of \$6,666 on June 20, 1991. However, the college did not deposit the state match until July 22.

Recommendations

- *Vermilion Community College should use Perkins Loan funds only for authorized purposes.*
- *Vermilion Community College should deposit their Perkins Loan fund in a separate interest bearing account.*
- *Vermilion Community College should ensure that the required institutional match is deposited in accordance with federal regulations.*

3. Vermilion Community College has an inadequate separation of duties over the Perkins Loan management system.

A business office employee at Vermilion Community College performs incompatible duties for the Perkins Loan management system. The clerk is responsible for adding borrower records, entering awards, and posting disbursements into the system. Although the campus services director reviews loan management system entries, he bases his reconciliation on documentation prepared by the same clerk. These duties are incompatible because there is no independent verification that loans have been properly entered into the system. To improve internal control, the college needs to separate these functions.

Vermilion Community College

Recommendation

- *Vermilion Community College should establish a proper separation of duties over the Perkins Loan management system.*

4. Internal controls over daily cafeteria receipts need improvement.

An inadequate separation of duties exists over the counter cafeteria receipts. The food service coordinator is responsible for all aspects of the daily receipt process. She collects cash, rings out the cash register, reconciles cash to the register totals, and prepares the bank deposit. An inadequate separation of duties may allow errors and irregularities to go undetected. At a minimum, an employee not having access to the cash should reconcile cash collected to the register totals and prepare the deposit.

The college also does not verify the amount of charge sales rung through the cafeteria cash register. The food service cashiers record students who are on the quarterly meal plan as charge sales. During December 1991, daily food sales amounted to \$22,924, with \$18,080, or 79 percent, recorded as charge sales. Currently, the college does not independently verify that all charge sales on the cash register actually represent meal plan students.

Recommendations

- *The college should adequately separate the duties over daily cafeteria receipts.*
- *The college should establish a system to independently verify cafeteria charge sales.*

V E R M I L I O N
C O M M U N I T Y C O L L E G E

July 1, 1992

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

Dear Ms. Leifeld:

Enclosed is Vermilion Community College's response to the draft audit report you distributed on June 25, 1992. Before we get to the specifics of the audit there are two things I feel should be on the record. The first is that due to our small size, separation of duties will always be a problem at Vermilion. The second is that recent funding problems place added pressure on institutions to favor cost efficient operation at the expense of financial controls. While financial controls at Vermilion can be improved in the areas you've cited, I think that Vermilion has made a concerted effort to balance both cost efficiency and compliance.

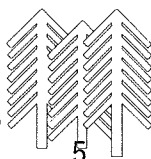
In our enclosed response, we find no need to contribute to or to contest anything stated in other than the Current Findings and Recommendations section and have limited our responses to this area. Thank you in advance for any consideration you can give to our requests. Your audit team was again very professional, well informed and considerate.

Sincerely,

Jon M Harris
RB

Jon M. Harris
Provost

Enclosure



RESPONSE TO CURRENT FINDINGS AND RECOMMENDATIONS

1. Federal cash management at Vermilion Community College needs improvement.

Vermilion agrees with the finding as stated.

Vermilion's response to the recommendation:

Vermilion concurs with the recommendation and will monitor its federal cash more closely and order cash much more often. Hopefully the federal government can also make this system more manageable.

Person responsible for implementation:

Ross Petersen

2. Vermilion Community College does not adequately manage Perkins Loan funds.

Vermilion agrees with the finding as stated.

Vermilion's response to the recommendation:

Vermilion agrees to only use Perkin Loan Funds for authorized purposes. Vermilion has created a separate interest bearing account and is currently depositing Perkins funds in this account.

Vermilion agrees to deposit the institutional match in accordance with federal regulations.

Person responsible for implementation:

Ross Petersen

3. Vermilion Community College has an inadequate separation of duties over the Perkins Loan management system.

Vermilion agrees with the finding as stated.

Vermilion's response to the recommendation:

The Business Office Clerk Typist II will be assigned the responsibility for entering Perkins Loans onto the loan management system.

Person responsible for implementation:

Ross Petersen

4. Internal controls over daily cafeteria receipts need improvement.

Vermilion's response to the finding:

Vermilion concurs with the first paragraph of the finding. The second paragraph deals with a problem that is very difficult to correct. While we understand the concern stated a total solution may not be feasible.

Vermilion's response to the Recommendation:

Vermilion agrees to make the additional expenditure required to have the Business Office Clerk Typist II ring out the food service cash register on a daily basis.

As part of the above process the Clerk Typist II will also review the number of meals registered on the meal plan against the total amount charged. Any significant discrepancies will be reported to the Director of College Services.

Person responsible for implementation:

Ross Petersen