

**DULUTH COMMUNITY COLLEGE CENTER
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

SEPTEMBER 1992

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

92-58

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

DULUTH COMMUNITY COLLEGE CENTER

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: September 4, 1992

No. 92-58

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: tuition and fee revenue, employee payroll expenditures, and bookstore revenue.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

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

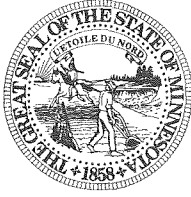
- Center payroll procedures need improvement.
- The center needs to segregate certain tuition receipt functions.
- The center needs to improve access controls to the student information system.
- The center does not properly control tuition receivables.
- The center needs to resolve tuition cost discrepancies with the Duluth Technical College.
- Controls over bookstore refunds need improvement.
- Controls over the center's bookstore receipts and inventory are inadequate.

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

- The center is not charging the required late fees.
- The center is not in compliance with its joint program agreement with the Duluth Technical College.

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

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Geraldine Evans, Chancellor
Community College System

Members of the Community College Board

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

Dr. Anthony Kuznik, Provost
Hibbing Community College

Mr. William Maki, Acting Director
Duluth Community College Center

Audit Scope

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

As part of our study and evaluation of the internal control structure, we performed tests of Duluth Community College Center'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.

Representative Ann Rest
Members of the Legislative Audit Commission
Dr. Geraldine Evans, Chancellor
Members of the Community College Board
Dr. Philip J. Anderson, President
Dr. Anthony Kuznik, Provost
Mr. William Maki, Acting Director
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Management Responsibilities

The managements of the Duluth Community College Center 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,
- employee payroll expenditures, and
- bookstore revenue.

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.

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We did not review internal controls over federal financial aid expenditures for the Duluth Community College Center. The Hibbing Community College financial aid office determines student eligibility and awards financial aid to Duluth Community College Center students. Duluth Community College Center is responsible only for disbursing financial aid checks to students.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 7 involving the internal control structure of the Duluth Community College Center. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable conditions described in findings 1, 2, 3, 6 and 7 are material weaknesses.

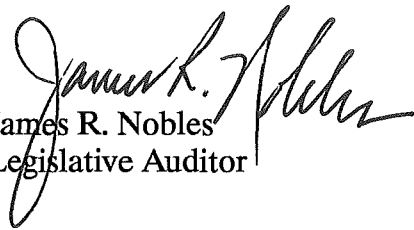
We also noted other matters involving the internal control structure and its operation that we reported to the management of the Duluth Community College Center at the exit conference held on August 13, 1992.

The results of our tests indicate that, except for the issues discussed in findings 4 and 5, with respect to the items tested, the Duluth Community College Center 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 the Duluth Community College Center 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 the Duluth Community College Center. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 4, 1992.

Representative Ann Rest
Members of the Legislative Audit Commission
Dr. Geraldine Evans, Chancellor
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We would like to thank the staff of the Duluth Community College Center for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 6, 1992

Report Signed On: August 31, 1992

Duluth Community College Center

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Beth Hammer, CPA	Auditor-in-Charge
Rhonda Regnier, CPA	Auditor
Amy Jorgenson	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Duluth Community College Center and the Arrowhead Community College Region Office at an exit conference on August 13, 1992:

Bill Maki	Acting Center Director
Stephanie Hammitt	Director of Center Services
Philip Anderson	President, Arrowhead Community College Region
Glenn Wood	Fiscal Services Director Community College System Office

Duluth Community College Center

Introduction

The Duluth Community College Center is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a director. The Duluth Community College Director during the audit period was Carolyn Kleiner. The director of the center reports to the provost of Hibbing Community College, Dr. Anthony Kuznik. The Duluth Community College Center is part of the Arrowhead Community College Region which includes one other center and five community colleges who share a regional administration. The president of the Arrowhead Community College Region is Dr. Philip Anderson.

The Duluth Community College Center began in 1985 as a clinical site for Hibbing Community College's nursing program. Since then the center has expanded its course offerings to include: associate in arts degree, associate in science degrees for nursing and radiological technology, sixteen joint programs with Duluth Technical College, and a joint law enforcement degree with Hibbing Technical College. The center's student enrollment has grown from a headcount of 83 in the fall quarter of 1986 to a fall quarter 1991 headcount of 1,007.

In 1992, the Legislature amended Minn. Stat. Section 136.60 to recognize the Duluth Community College Center.

According to Community College System records, the Duluth Community College Center collected and spent the following amounts during fiscal year 1991:

Revenues:	
Tuition and Fees	\$ 766,753
Bookstore	166,280
Other	<u>1,307</u>
Total Revenues	<u>\$ 934,340</u>
Expenditures:	
Employee Payroll	\$1,491,062
Other	<u>580,730</u>
Total Expenditures	<u>\$2,071,792</u>

Sources: Duluth Community College Center and Community College System totals.

Current Findings and Recommendations

1. Duluth Community College Center payroll procedures need improvement.

Duluth Community College Center does not have an adequate separation of duties over payroll procedures. In addition, the center does not complete an independent review of the payroll certification report.

The personnel designee at the center performs virtually all personnel and payroll responsibilities for the center. The designee completes and signs forms to place employees on the payroll. The designee also completes and authorizes the biweekly payroll roster. These duties are incompatible and may allow for errors and irregularities to occur and go undetected. The center's use of many part-time faculty teaching at various locations increases the risk over payroll. Although a separate employee distributes the payroll checks, most payroll checks are mailed out. Because of this, the employee is not able to verify the validity of the payroll checks.

The center also does not complete a review of the biweekly payroll certification reports. The center personnel clerk completes the payroll rosters and maintains the timesheets and leave records. Accordingly, the Community College System Office has delegated the responsibility of verifying payroll certification reports for classified employees to the individual campuses.

Recommendations

- *The center should separate duties within the personnel and payroll process.*
- *The center should complete an independent review of the payroll certification report for classified employees.*

2. The Duluth Community College Center needs to segregate certain tuition receipt functions.

The business office account clerk generally completes all tuition receipt duties. The clerk collects most receipts and enters them onto the cash register, posts payments to the student registration system, and deposits the receipts. In addition, the clerk reconciles the tuition receipts to the student registration system and reconciles the receipts to the cash register transaction tape daily. The center has a part-time campus services director. However, the center has not enforced a clear separation of duties between the account clerk and the campus services director. Instead, the campus services director performs back-up cashiering

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functions when at the center. This lack of separation does not provide necessary controls to prevent unintentional errors and to provide an independent check of work done.

In addition, the account clerk records voided transactions on the cash register tape but an independent person does not perform a review of the voided transactions. An independent check of voided transactions is important since voids represent decreases in money deposited.

Recommendations

- *The center should develop procedures for separating incompatible duties in the receipts process.*
- *An independent person should review and approve the voided transactions recorded by the account clerk.*

3. The Duluth Community College Center needs to improve access controls to the student information system.

The Duluth Community College Center has not completed periodic reviews of employee access to the student information system. The center uses the system to register students for classes, record tuition payments and deferments, and post grades. The center did not terminate access for former center employees nor for Hibbing Community College employees who are no longer involved in the tuition process. In addition, center employees have access to portions of the student information system which are incompatible with their job responsibilities.

At the time of our audit, two former employees of the center still had access to record tuition payments and deferments within the student information system. In addition, ten Hibbing Community College employees continued to have access to record payments, record deferments, and change the accounting date in the system for the center. Since February 1990, Hibbing employees no longer are responsible for processing student information transactions for the Duluth center. To maintain adequate internal controls, only those employees who have responsibility for recording transactions into the system should have access.

Center employees have access to the student information system which is not limited to their job responsibilities. The employee in the registration office has access to record tuition payments. The cashiers who handle tuition receipts have access to record tuition deferments and can change the accounting date. The campus service director also has access which is not limited to job responsibilities. The campus service director is responsible for processing tuition receipts and has access to enter tuition payments, tuition deferments, tuition waivers, and change the system's accounting date. Not limiting access to job responsibilities could allow employees to enter inappropriate tuition payments, deferments, and waivers. The center needs to review employee responsibility and limit access to employees based on job responsibilities.

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Recommendation

- *The center should limit access to the student information system based on employee job responsibilities.*

4. PRIOR FINDING PARTIALLY RESOLVED: The Duluth Community College Center does not properly control tuition receivables.

The Duluth Community College Center is not reviewing tuition accounts receivable timely. In addition, the business office is not charging the required late fees.

The center is not following up on unpaid tuition and fees timely. Each quarter, the student information system generates balance due reports, showing enrolled students who have not paid. The center has not promptly reviewed the balance due reports to determine if students on the report have valid deferments. Our review showed the center did not follow up with unpaid students until four to five months after the start of each quarter. Community College Board policy requires students without valid deferments to pay the general fee in full by the first day of class. Without a timely review of outstanding accounts receivable, the center is not initiating action on students without valid deferments and may be improperly inflating full-time enrollment.

Since the center is not completing timely review of balance due lists, it cannot determine which students should pay a late fee. As a result, the center does not charge late fees to students who pay their tuition after a quarter begins, as required by Community College board policy.

Recommendations

- *The center should complete a timely review of the balance due lists and take appropriate action on delinquent accounts.*
- *The center should charge late fees when applicable, as required by Community College Board policy.*

5. The Duluth Community College Center needs to resolve tuition cost discrepancies with the Duluth Technical College.

Duluth Community College Center is not in compliance with its joint program agreement with the Duluth Technical College. The college center and the technical college offer sixteen joint programs.

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The center and the technical college failed to reach an agreement on the tuition rate prior to the fall and winter quarters of the 1991-1992 school year. The center initially billed the technical college at a rate of \$35.50 per credit. The technical college only paid the center \$34.45 per credit. An agreement between the two schools states: "determination of fees to be charged shall be agreed to before registering students in the program." However, the two schools did not agree on what they should charge students before the students registered for classes. For winter quarter 1992, the technical college paid the center \$48,780 in tuition costs.

In addition the center has not billed the technical college promptly for tuition costs. For example, the center billed the Duluth Technical College seven weeks after the start of the fall 1991 quarter and nine weeks after the start of winter 1992 quarter. By not billing tuition costs more timely, the Community College System loses the use of the funds during that time.

Recommendations

- *The center should work with the Duluth Technical College to determine tuition costs before the start of each quarter, as required by the joint agreement.*
- *The center should promptly bill the Duluth Technical College for students enrolled in the joint programs.*

6. Controls over bookstore refunds need improvement.

The bookstore cashiers at the center do not adequately document bookstore cash refunds. The cashiers did not document the reasons for the returns nor was there an independent review of the transactions. For each refund, the bookstore cashier should complete a return form showing the item returned, the reason, and the amount refunded. The person receiving the cash should then sign the form. Proper documentation of cash refunds is important since these transactions decrease cash receipts. A lack of documentation increases the risk that improprieties may occur and go undetected.

We were concerned that refund irregularities may occur due to the lack of documentation over refunds. To satisfy ourselves, we reviewed all refunds during December 1991 and during fiscal year 1991. We found only \$106 in undocumented refunds during December 1991 and \$539 throughout fiscal year 1991. Although the refund totals were immaterial, due to the lack of controls over refunds, there is no assurance that future errors and irregularities would be detected.

Recommendation

- *The bookstore cashiers should document all cash refunds.*

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7. Internal controls over Duluth Community College Center's bookstore receipts and inventory are inadequate.

The center does not adequately separate bookstore receipts and inventory duties. One account clerk is responsible for preparing the daily cash report, making the deposit, and keeping the bookstore records. In addition, the clerk collects receipts and operates the cash register. Although another employee is primarily responsible for running the cash register, the account clerk often performs this function when the bookstore employee is unavailable. To maintain adequate control, the account clerk should not routinely operate the bookstore cash register. Separation of duties provides a necessary control to prevent unintentional errors and an independent check of the work done.

Internal controls over bookstore inventory are also weak. The bookstore employee is responsible for ordering, receiving, and selling books and other merchandise. The clerk also performs quarterly inventory counts to determine how many books are on hand. In addition, no one reconciles inventory on hand to bookstore sales. Without a proper separation of duties and a reasonableness check on inventory, errors and irregularities could go undetected.

Recommendations

- *The center should develop procedures for separating incompatible bookstore receipt and inventory duties.*
- *The center should develop procedures to keep track of inventory sales and reconcile sales to bookstore receipts. Someone independent of the bookstore should perform this function.*



1309 Rice Lake Road
Duluth, Minnesota 55811
(218) 723-4796
An Equal Opportunity Employer

August 25, 1992

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

Dear Ms. Leifeld:

Attached you will find our formal written response to audit comments and recommendations for the three years ending June 30, 1991, as requested in your letter.

We have listed, as you requested, the name of the person responsible for implementation of each recommendation.

Yours truly,

William D. Maki, Acting Director
Duluth Community College Center

cc: Dr. Geraldine Evans, Chancellor
Dr. Philip Anderson, President
Dr. Anthony Kuznik, Provost, HCC
Stephanie Hammitt, Director of Center Services, DCCC

BM/jmg

RESPONSE TO LEGISLATIVE AUDIT REPORT

AUGUST 10, 1992

The following steps have been taken to address the concerns as outlined in your audit report for the period ending June 30, 1991.

1. Duluth Community College Center payroll needs improvement.

ACTION: Person responsible: Center Director

Campus personnel designee prepares all appointment forms and payroll time rosters. The forms are initialed by the Center Director or Director of Center Services in Director's absence. Director of Center Services monitors monthly and bi-weekly payroll reports. Overtime hours are approved in advance. The region's personnel designee reviews the manual computations involved in faculty leave records.

2. The Duluth Community College Center needs to segregate tuition receipt functions.

ACTION: Person responsible: Director of College Services

Receipt process has been refined to the following procedures: Student worker performs transactions on the cash register while the account clerk will prepare the actual deposits. The Director of Center Services signs off and reviews all daily reports. A second person will sign any void transactions that may occur as well as the person conducting the transaction. A short explanation will be documented regarding the void if necessary. These are ultimately reviewed by and initialed by someone other than the account clerk who prepared the deposit.

3. **The Duluth Community College Center needs to improve access controls to the student information system.**

ACTION: Person responsible: Director of College Services

The user I.D. report has been monitored and updated. All employees no longer associated with the college, had their user ID number erased. Hibbing Community College employees also had their numbers deleted except for HCC's Director of College Services who still holds some inquiry functions. Periodic reviews and updates to the user I.D. file are performed by the Director of Center Services. The business office now functions completely separate from the records office.

4. **Duluth Community College Center does not properly control tuition receivables.**

ACTION: Person responsible: Director College Services

A committee of business officers from the community college system has met and is recommending an accounts receivable package be developed to assist in monitoring tuition receivable.

In the case of late fees, Dr. Phil Anderson, ACCR President, is currently in the process of asking for a new procedure to change the late fee policy for the out-state schools.

5. **The Duluth Community College Center needs to resolve tuition cost discrepancies with the Duluth Technical College.**

ACTION: Person responsible: Center Director

Billings are processed in a timely fashion. The Center Director will pursue agreement with the President of the Duluth Technical College to determine reimbursement rates before the billings are done.

6. **Controls over bookstore refunds needs improvement.**

ACTION: Person responsible: Director of College Services

A return/refund form is filled out for all refunds, including cash refunds. An explanation of why the book was returned is provided and the student must sign the form before the refund is granted.

7. **Internal controls over Duluth Community College Center's bookstore receipts and inventory are inadequate.**

ACTION: Person responsible: Director of College Services

Business office clerk or student worker run the bookstore cash register, while the account clerk prepares the deposits and daily paperwork. The total cash deposited and total checks deposited are specifically listed on the daily deposit reports. The Director of Center Services reviews, dates, and signs each daily report. The Director of Center Services also signs off on purchase orders and on payment of invoices.

Bookstore ledgers are being entered on the computer. Inventory counts are done quarterly. The price mark-up policy has been established at 25% for used books and 20% on new books.