

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

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**OCTOBER 1992**

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

**92-72**



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

Public Release Date: October 8, 1992

No. 92-72

**OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Tuition and fees, federal revenues and cash management, bookstore revenue, bookstore expenditures, employee payroll expenditures, 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:

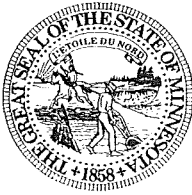
- Federal cash management at Itasca Community College needs improvement.
- Itasca Community College needs to improve controls over the student information system.
- Time and leave records for Itasca Community College faculty employees need improvement.

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

- Itasca Community College has not complied with federal cash management regulations.
- Itasca Community College does not charge the required late fees.
- Itasca Community College is not complying with certain personnel plan provisions.

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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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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**

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

Dr. Lawrence Dukes, Provost  
Itasca Community College

**Audit Scope**

We have conducted a financial related audit of Itasca 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 Itasca Community College, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of Itasca Community College in effect as of March 1992.

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 Itasca Community College are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of Itasca 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 Itasca 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 Community

Representative Ann Rest, Chair  
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College System concerning federal financial aid during the audit period. They were dated April 26, 1990, May 2, 1991, and April 29, 1992, and covered fiscal years 1989, 1990, and 1991 respectively. The fiscal year 1990 and 1991 management letters indicated that Itasca Community College's satisfactory academic progress policy did not contain all of the necessary federal requirements.

## **Management Responsibilities**

The management of Itasca 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 revenues,
- federal revenues and cash management,
- bookstore revenues,
- bookstore expenditures,
- employee payroll expenditures, and
- federal financial aid expenditures.

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For the internal control structure categories listed, 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, 2, and 5 involving the internal control structure of Itasca 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.

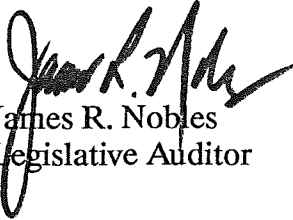
We also noted other matters involving the internal control structure and its operation that we reported to the management of Itasca Community College in a meeting held on May 21, 1992.

The results of our tests indicate that, except for the issues discussed in the federal financial aid paragraph and in findings 1, 3, and 4, with respect to the items tested, Itasca 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 Itasca Community College had not complied, in all material respects, with those provisions.

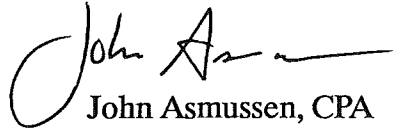
This report is intended for the information of the Legislative Audit Commission and management of Itasca Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 8, 1992.

Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
Dr. Geraldine Evans, Chancellor  
Members of the Community College Board  
Dr. Philip J. Anderson, President  
Dr. Lawrence Dukes, Provost  
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We thank the Itasca Community College staff for their cooperation during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: May 21, 1992

Report Signed On: October 2, 1992



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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
Michael Hassing	Auditor-in-Charge
Mary G. L. Jacobson, CPA	Auditor
David Polisenio, CPA	Auditor

### **Exit Conference**

The findings and recommendations in this report were discussed with the following officials of Itasca Community College and the Arrowhead Community College Region at an exit conference on May 21, 1992:

Lawrence Dukes	Provost
Michael Johnson	Campus Services Director
Jane Chamberlain	Senior Account Clerk
Patty Holycross	Financial Aid Director
Cheryl Bennett	Bookstore Manager
Tony Bartovich	Arrowhead Regional Office



# Itasca Community College

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## Introduction

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Itasca 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, Dr. Lawrence Dukes, reports to the president of the Arrowhead Community College Region.

Operations of Itasca Community College are financed mainly by student tuition and fees and state appropriations from the General Fund. The college accounts for its instructional and operating activities on the statewide accounting system. Other activities, such as bookstore transactions, federal financial aid, 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, Itasca Community College collected and spent the following amounts during the audit period:

	<u>Fiscal Year Ended June 30</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Revenues:			
Tuition and Fees	\$1,359,515	\$1,381,253	\$1,147,351
Federal Revenue	1,152,894	1,312,751	1,253,690
Bookstore	308,368	295,765	240,903
Other	<u>612,270</u>	<u>726,594</u>	<u>550,135</u>
Total Revenues	<u>\$3,433,047</u>	<u>\$3,716,363</u>	<u>\$3,192,079</u>
Expenditures:			
Employee Payroll	\$4,163,938	\$3,877,662	\$3,371,240
Pell Grants	963,475	1,072,747	879,453
Perkins Loans	23,671	9,048	2,466
Bookstore	271,805	263,422	227,699
Other	<u>1,265,972</u>	<u>1,225,568</u>	<u>957,977</u>
Total Expenditures	<u>\$6,688,861</u>	<u>\$6,448,447</u>	<u>\$5,438,835</u>

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

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## Current Findings and Recommendations

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### **1. Federal cash management at Itasca Community College needs improvement.**

Itasca Community College is not monitoring federal cash balances adequately. The college also did not deposit the required institutional Perkins Loan match according to federal regulations.

The college is not monitoring cash balances of individual federal programs or requesting federal reimbursements timely. The college uses one local checking account for all federal programs. This account is used as a clearing account for the College Work Study and Co-operative Grant programs. Both programs have had negative balances throughout fiscal year 1992. For example, as of March 31, 1992, these programs had negative balances of \$17,558 and \$11,995, respectively. Due to delays in reimbursing these programs, the college is using Perkins Loan funds to temporarily cover the negative balances. This practice is not allowed by federal regulations. Also, by using the Perkins Loan funds to offset the other deficits, the college is unable to earn interest on the Perkins Loan funds. Federal regulations only allow the college to use Perkins Loan funds for Perkins Loan uses.

The Director of Campus Services at Hibbing Community College requests college work study money on behalf of the entire Arrowhead Community College Region. The U.S. Treasury electronically transfers funds into Hibbing Community College's federal funds bank account. The Hibbing Campus Services Director then sends checks to the individual campuses. Because of delays in this process, Itasca Community College has not always received its federal work study money in time to fund its student payroll. As a result, it has used its Perkins Loan balance to fund the shortfall until the federal money arrives. Likewise, Itasca Community College has used its Perkins Loan funds to cover a lack of funds in the Co-operative Grant federal program, even though the college has the ability to request its own federal money for that program.

In addition, Itasca Community College did not deposit the required Perkins Loan match according to federal regulations. The regulations require the college deposit the institutional match in the Perkins Loan fund no later than when it receives the federal capital contribution. For the previous two school years, the college received the federal share in early September, but did not deposit the required match until October.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of

## Itasca Community College

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.

### *Recommendations*

- *Itasca Community College should monitor individual federal program balances and request program reimbursements timely.*
- *Itasca Community College should only use Perkins Loan funds for authorized purposes.*
- *Itasca Community College should deposit the state matching funds no later than when they receive the federal contribution.*

## **2. Itasca Community College needs to improve access controls to the student information system.**

The college's student information system access controls need improvement in two areas. The college uses this system to register students for classes, record tuition payments and deferments, and post grades. Some college employees have access to transactions which are incompatible with their job responsibilities. Secondly, employees share their access codes.

Giving employees access to perform unnecessary accounting transactions breaks down the college's separation of duties. Currently, the business office employees who collect receipts can also defer tuition and fee assessments in the student information system. One business office employee also has the ability to alter the accounting date for the cash reconciliation report on the system. These access capabilities make it possible for employees to conceal errors and irregularities.

Controls are also weak because business office employees are not keeping their user and cashier identification codes confidential. Student workers use the employees' access codes. Student workers assist in the college business office approximately six hours each day. These students enter most of the receipt transactions. The student information system allows users to access parts of the system through unique user and cashier identification codes. Sharing access codes is risky because it does not allow the college to identify which employee entered certain transactions.

## Itasca Community College

### *Recommendation*

- *Itasca Community College should strengthen access controls over the student information system by:*
  - *limiting employee's access to only those functions necessary to perform their job responsibilities, and*
  - *prohibiting employees from sharing access codes.*

### **3. Itasca Community College does not charge the required late fees.**

The college is not charging late payment fees to students who do not pay their tuition and fees promptly and do not have a valid deferment. Community College Board policies require colleges to charge registered students late fees if they do not pay their tuition by the first day of classes. Colleges also must charge late fees to students who register after the first day and do not pay on that day. Students can request a deferment of their tuition and fees to avoid paying these late fees.

### *Recommendation*

- *Itasca Community College should charge late payment fees when required.*

### **4. The college is not complying with certain personnel plan provisions.**

The college is not complying with overtime provisions for the AFSCME bargaining unit. The college does not compensate food service employees for overtime hours worked on some occasions. The college has three regular food service employees. The personnel plan governing these employees (AFSCME) requires overtime compensation at time and one-half. This plan defines overtime as any hour worked in excess of the established work day or any hour worked on a regularly scheduled day off. The food service work schedule sometimes requires the employees to work evenings and weekends. The food service employees do not always record these hours as overtime. Sometimes they adjust their work schedule so they do not exceed 80 hours for the payperiod. This results in a straight time exchange for the hours worked. Consequently, the college is not compensating the employees in accordance with the bargaining agreement.

### *Recommendation*

- *Itasca Community College should follow the overtime policies as provided in the bargaining agreements.*

## Itasca Community College

### 5. Time and leave records for Itasca Community College faculty employees need improvement.

The college does not promptly record leave taken by faculty. The college is responsible for maintaining and monitoring leave records for full-time faculty members. The college only updates the records at the end of the academic year based on the leave requests submitted throughout the year. Lack of timely posting increases the risk of errors or omissions and makes it more difficult to resolve discrepancies. Accurate leave records are important because employment contracts impose limits on the amount of leave an employee may earn and maintain. In addition, if employees resign, the annual and sick leave balances determine their severance pay amount.

The college also does not have complete leave records for part-time faculty. Currently the college employs approximately 25 part-time faculty. The faculty personnel plan provides for prorated leave benefits based on the number of credits taught. The college retains copies of the leave requests, but does not have records to reflect the current balances available for the employee. Without leave records, it is difficult to monitor an employee's leave balance.

#### *Recommendation*

- *Itasca Community College should maintain complete and up-to-date leave records for its faculty members.*







# Itasca Community College

Arrowhead Region

September 24, 1992

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

Dear Ms. Leifeld,

Please accept this letter as our official response to the financial related audit of Itasca Community College for the three years ended June 30, 1991.

FINDING #1 - Federal cash management at Itasca Community College needs improvement.

Itasca Community College fully agrees with the recommendations set forth:

- Reimbursements for federal programs will be requested in a timely and frequent manner and individual federal program balances are monitored.  
Person responsible: Jane Chamberlain - Account Clerk  
Completion date: Fall quarter 1992
- Perkins loan funds will only be used for authorized purposes.  
Person responsible: Jane Chamberlain - Account Clerk  
Completion date: Fall quarter 1992
- The state matching funds will be deposited no later than when we receive the federal contribution.  
Person responsible: Mike Johnson - Dir. College Serv.  
Completion date: Fall quarter 1992

FINDING #2 - Itasca Community College needs to improve access controls to the student information system.

Itasca Community College fully agrees with the recommendations set forth:

- A review of employees approved access codes will be performed and only those necessary to perform their job responsibilities will be approved.  
Person responsible: Mike Johnson - Dir. College Serv.  
Completion date: January 1, 1993

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- Employees will be instructed not to share access codes.  
Person responsible: Mike Johnson - Dir. College Serv.  
Completion date: Fall quarter 1992

FINDING #3 - Itasca Community College does not charge the required late fees.

Itasca Community College fully agrees with the recommendation set forth:

- Itasca Community College will charge late payment fees when appropriate.  
Person responsible: Mike Johnson - Dir. College Serv.  
Completion date: Winter quarter 1992-93

FINDING #4 - The college is not complying with certain personnel plan provisions.

Itasca Community College fully agrees with the recommendation set forth:

- Itasca Community College will follow the overtime policies as provided in the bargaining agreements.  
Person responsible: Administration Staff  
Completion date: Fall quarter 1992

FINDING #5 - Time and leave records for Itasca Community College faculty employees need improvement.

Itasca Community College fully agrees with the recommendation set forth:

- Itasca Community College will maintain complete and up-to-date leave records for its faculty members.  
Person responsible: Betty Rogers  
Completion date: January 1, 1993

On behalf of the Itasca Community College Administration and staff, I would like to compliment the audit team on the professional and efficient manner in which this audit was conducted. The findings and recommendations are helpful to our internal controls and will increase our ability to serve our students and our employees in the most effective and efficient way possible.

Sincerely,



Lawrence Dukes  
Provost

LD/bc

# ITASCA COMMUNITY COLLEGE



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September 30, 1992

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

Dear Ms. Leifeld,

Please accept this letter of revision to our response for finding #3.

#3 Itasca Community College does not charge the required late fees.

ACCR President is currently in the process of asking for a new procedure to change the policy for out-state community colleges regarding charging of late fees.

Person responsible: Mike Johnson

I apologize for this revision but I was informed of this action in progress after submitting the response. Thank you for your understanding and cooperation.

Sincerely,

Lawrence N. Dukes  
Provost

pc: Tony Bartovich