

COMMUNITY COLLEGE SYSTEM

***SELECTED SCOPE FINANCIAL AUDIT**

Tuition, Appropriation Allocation, & Retirement Plans

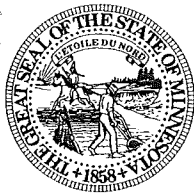
FOR THE YEAR ENDED JUNE 30, 1992

DECEMBER 1993

***See description of this new
report style in the following
Note to Report Readers.**

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

93-58



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert Bigwood, Chair
Community College Board

Members of the Minnesota State Board for Community Colleges

Dr. Geraldine Evans, Chancellor
Community College System

Audit Scope

We have conducted a financial related audit of selected activities of the Minnesota State Community College System as of and for the year ended June 30, 1992. Our audit was limited only to a portion of the Community College System, as discussed in the following paragraphs and in the Introduction.

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 selected audit areas of the Community College System are free of material misstatements.

Our audit was limited to a review of significant sources of incoming funds to the Community College System, as shown in the Introduction. Specifically, we reviewed the following:

- Tuition revenue, including the assessment and collection of tuition on campuses, as well as central controls over tuition through the computerized student information system.
- The systemwide appropriation allocation process.
- The systemwide employee retirement plans, including the individual retirement account plan, the supplemental retirement plan, and the tax sheltered annuity program.

For each 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 put into operation. We assessed control risk as of March 1993.

As part of our study and evaluation of the internal control structure, we performed tests of the Community College System's compliance with certain provisions of laws, regulations, board policies, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Testing of Federal Financial Aid

Federal receipts also comprise a material source of incoming funds for the Community College System. However, we did not audit federal receipts as a part of this audit. Most federal receipts support the campuses' federal student financial aid programs. We test federal financial aid programs for the Community College System each year in conjunction with our statewide audit of the State of Minnesota's annual financial statements and federal programs. We issued a separate management letter to the Community College System concerning federal financial aid during the audit period. It was dated June 18, 1993 and covered the fiscal year ended June 30, 1992.

Management Responsibilities

The management of the Community College System 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
- 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 through 10, involving the internal control structure of the selected aspects of the Minnesota State Community College

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System. We consider these conditions to be reportable conditions under the 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 element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted certain matters involving the internal control structure and its operation that we reported to the management of the Community College System in a meeting held on October 13, 1993.

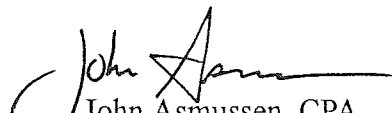
The results of our tests indicate that, with respect to the items tested, the Community College System complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Community College System 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 Community College System. This restriction is not intended to limit the distribution of this report, which was released as a public document on December 3, 1993.

We thank the Community College System campus and system office staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 28, 1993

Report Signed On: November 19, 1993

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Audit Participation

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

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Dan Quandt, CPA	Auditor
Jean Mellett, CPA	Auditor
Melissa Gamble, CPA	Auditor
Dale Ogren	Auditor

Exit Conference

The issues in this report were discussed with the following staff of the Community College System on October 13, 1993:

Glen Wood	Director of Finance
Scott Erickson	Associate Director of Finance
Larry Maroney	Supervisor of General Accounting
Mark Wirtanen	Accounting Technician
Dale Jarrell	Director of Computer Services
Jim Dierich	Associate Director of Computer Services
Anne Weyandt	Director of Staff Services
Brian Ecker	Management Analyst
Jim Harris	Internal Auditor

Community College System

Chapter 1. Introduction

The Community College System is made up of 18 colleges located throughout the state, pursuant to Minn. Stat. Section 136.60. The community college system office, located in Saint Paul, oversees the activities of the colleges and provides central service support. Table 1-1 shows the campuses within the system and their locations.

Table 1-1
Community College Campuses - by location

<u>Campus</u>	<u>Location</u>
Anoka-Ramsey Community College	Coon Rapids
Cambridge Center	Cambridge
Inver Hills Community College	Inver Grove Heights
Lakewood Community College	White Bear Lake
Minneapolis Community College	Minneapolis
Normandale Community College	Bloomington
North Hennepin Community College	Brooklyn Park
Rochester Community College	Rochester
Arrowhead Community College Region	
Hibbing Community College	Hibbing
Itasca Community College	Grand Rapids
Mesabi Community College	Virginia
Rainy River Community College	International Falls
Vermilion Community College	Ely
Fond du Lac Center	Cloquet
Duluth Center	Duluth
Clearwater Community College Region (1)	
Brainerd Community College	Brainerd
Fergus Falls Community College	Fergus Falls
Northland Community College	Thief River Falls
Austin Community College	Austin
Willmar Community College	Willmar
Worthington Community College	Worthington

(1) Colleges began operating independently without regional affiliation as of July 1993.

Community College System

The State Board for Community Colleges controls the Community College System. It consists of nine members appointed by the governor with the advice and consent of the senate. One member must be a full-time student at a community college at the time of appointment or must have been a full-time student at a community college within one year before the appointment to the board. Other than the student member, at least one member must be a resident of each congressional district. The board appoints a chancellor for the system. The current chancellor is Geraldine Evans, appointed July 1, 1992. Each community college, with the exception of those with regional affiliation, has a president who serves at the pleasure of the board. The Arrowhead community college region has a regional president, with a campus president in charge of each individual campus.

Each of the community colleges is a fairly autonomous operating unit, with a wide range of powers. Although the community college board allocates the legislative appropriations to the colleges, each college president has broad discretion to set the individual college budget. Also, most administrative controls, including the ability to hire and fire employees, are in the hands of the college presidents. The colleges are responsible for collecting tuition and fees, as well as disbursing financial aid.

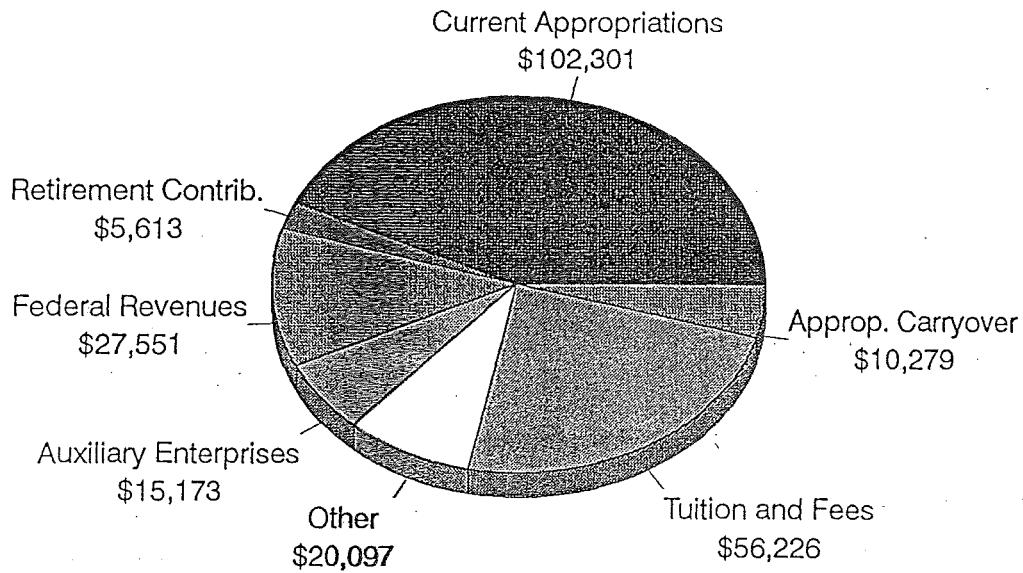
The system office serves as the central processing agent for much of the financial activity at the campus level. System office personnel provide fiscal, personnel, and computer services for the colleges. These services include payroll and disbursement processing, budget tracking, system-wide accounting, grant supervision, and student loan collection. The central office also administers the retirement plans for community college employees. The system office provides computer support systems, including the student information, personnel expenditure, and non-personnel expenditure systems.

Figure 1-1 summarizes the Community College System's sources of funding for the year ended June 30, 1992.

Figure 1-1

Funding Sources

year ended June 30, 1992 (in thousand \$)



Source: Statewide accounting system and community college annual statements of representation for fiscal year 1992

As explained in the scope and conclusions letter, our audit was limited to a review of three sources of incoming funds; tuition revenue, the appropriation allocation process, and retirement contributions.

Community College System

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Chapter 2. Tuition Revenue

Chapter Conclusions

We found several weaknesses in the internal control structure over tuition and fee revenue. Contributing factors include the following:

- *Cash receipt and accounting duties at some community college campuses are not adequately separated;*
- *Access to certain transactions within the student information system has not been adequately restricted;*
- *Tuition accounts receivable processes and procedures are inadequate on some campuses; and*
- *The integrity of information from the student information system needs to be verified on an ongoing basis.*

The Community College System is responsible for developing procedures to ensure recovery of an appropriate amount of tuition from each registered student. Pursuant to Minn. Stat. Section 135A.04, the State Board for Community Colleges is responsible for setting the tuition rate. Table 2-1 shows the tuition rates in effect during fiscal year 1992.

Table 2-1
Fiscal Year 1992 Tuition Rates

General Fee - Resident	\$35.50 per credit
General Fee - Nonresident	\$71.00 per credit
Senior Citizen Fee (62 years of age or older)	\$6.00 per credit
General Fee - Joint Enrollment	Lower of community college or technical college rate

Source: Community College System Board policies.

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The community college campuses bill and collect tuition from thousands of community college students each year. Tuition receipts, aside from state appropriations, are the primary source of revenue for the Community College System. According to Community College System records, the system collected over \$57 million in tuition and fees during fiscal year 1992. Table 2-2 further details tuition collections by campus for fiscal year 1992.

Table 2-2
Tuition Collections by Campus
For the Year Ended June 30, 1992

College	General Fees (1)	Special Course Fees	Total	Percent
Normandale	\$9,361,239	\$242,206	\$9,603,445	16.8
North Hennepin	5,922,531	417,979	6,340,510	11.1
Lakewood	5,300,316	323,703	5,624,019	9.9
Anoka Ramsey	4,982,795	236,182	5,218,977	9.2
Minneapolis	4,343,814	263,011	4,606,825	8.1
Inver Hills	4,359,857	216,343	4,576,200	8.0
Rochester	4,453,152	47,702	4,500,854	7.9
Brainerd	1,931,311	10,551	1,941,862	3.4
Willmar	1,736,567	3,497	1,740,064	3.1
Itasca	1,416,121	21,927	1,438,048	2.5
Fergus Falls	1,416,088	7,941	1,424,029	2.5
Duluth/Fond du Lac	1,370,487	18,108	1,388,595	2.4
Austin	1,273,263	17,545	1,290,808	2.3
Hibbing	1,195,161	12,287	1,207,448	2.1
Mesabi	1,162,200	22,117	1,184,317	2.1
Cambridge	1,087,335	30	1,087,365	1.9
Vermilion	1,037,715	37,730	1,075,445	1.9
Worthington	978,820	43,394	1,022,214	1.8
Northland	972,045	4,325	976,370	1.7
Rainy River	738,277	24,534	762,811	1.3
TOTAL	\$55,039,094	\$1,971,112	\$57,010,206	100.0%

(1) Includes resident and non-resident tuition fees plus application fees.

Source: Community College System Cumulative Receipt Report for fiscal year 1992 as of March 11, 1993.

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The responsibility for collecting and processing tuition receipts rests primarily with the twenty-one business offices at campuses throughout the state. Each campus is directly responsible for maintaining certain controls over cash receipts, accounts receivable, and access to the central computer system. Campuses have set up a variety of unique internal control structures, within certain broad mandates from the system office. During past audits we have found significant weaknesses in tuition collection controls at some campuses.

The system office supports the collection of tuition with the student information system, a centralized registration/collection system. This system aids the campuses in assessing tuition, recording payments, and monitoring outstanding balances. However, the student information system was not originally designed as a comprehensive financial management tool. Rather, it was intended for student registration and grade management. As a result, several of the colleges have complained of inefficiencies and weaknesses in the controls the student information system provides.

Since over 70 percent of tuition collections occur within the Twin Cities metropolitan area and Rochester, we focused most of our audit efforts on key control points applied at the metropolitan campuses. We tested key control points at the system office and at Anoka Ramsey, Inver Hills, Normandale, and North Hennepin Community Colleges. In addition, we surveyed all community college campuses. Through the surveys, we gained information about campus tuition collection, receivable, assessment, and refund practices.

Campus Collection Procedures

The tuition receipt process begins at the campuses when students register for classes. Campus staff enter registration information into the student information system. The system's tuition assessment program reads the registration file and fee tables, then calculates the amount of tuition the student owes. As part of the assessment process, the student information system automatically creates a student accounts receivable record.

Students generally pay tuition and fees at the campus business office. Business office staff retrieve the tuition assessment record in the student information system and accept the payment. The student receives both a cash register receipt and a fee statement as proof of payment. Business office staff then post the payment against the student's accounts receivable record in the student information system.

We identified several controls which we believe campuses must have in place to ensure that they properly record and deposit tuition collections. We specifically tested these controls at Anoka Ramsey, Inver Hills, Normandale, and North Hennepin Community Colleges. We supplemented these tests by surveying other community college campuses to gain further information about these critical controls. We identified several weaknesses in the control structure over tuition collections on the campuses.

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1. Some campuses have an inadequate separation of duties related to the cash reconciliation process.

Some campuses do not have an independent person reconcile cash deposits to payments posted to the student information system. The persons performing the cash reconciliation at Normandale and North Hennepin Community Colleges, two of the four colleges we visited, were not independent of the cashiering function. At Anoka Ramsey Community College, an independent person performed a review of the reconciliation only once per year. In fact, in our survey, seven out of the twenty-one campuses reported that the person primarily responsible to perform the cash reconciliation on campus also was a primary cashier. On an additional thirteen campuses, the person primarily responsible for the cash reconciliation had back-up cashiering responsibilities.

The cash reconciliation procedure is a key internal control to detect and prevent errors or irregularities. Cashiers collect and record the tuition on the cash register and post tuition payments onto the student information system. A daily independent reconciliation of the computer generated daily payment posting report to the daily cash deposit provides verification that tuition receipts were properly deposited. An independent person, other than someone who handles tuition receipts, should perform the reconciliation or should at least review and verify the reconciliation. This review would reduce the risk of undetected errors or irregularities.

Recommendation

- *A person independent of the cashiering function should either reconcile student information system tuition postings to cash register receipts daily, or review and verify the cash reconciliations.*

Student Information System Access

The student information system consists of four types of files. One file contains general student demographic and personal data, such as student name, address, and high school transcript information. The second file contains information on course offerings. The third file contains data generated when students register for classes each term. The final file contains data on student fee assessments and corresponding payments against those assessments. The system office designed the student information system to allow maximum flexibility in its use by the individual campuses. Campuses establish individual course offerings and special course fees in the system. They enter grades and payment information for their students and are able to waive or adjust tuition amounts assessed by the system.

In past audits we have reported material weaknesses both in the Community College System's general data processing controls and in the student information system. One of our prior findings reported that the Community College System was not adequately controlling access to its computer system. The system office has recently implemented several new policies relating to

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computer access. In March 1993, the Community College System implemented a new main-frame security software package. Access to the computer now requires both a user ID and a confidential password. The security software automatically shuts off terminals after 15 minutes of inactivity and allows users to sign onto only one terminal at a time. The software requires users to create new passwords every ninety days. Finally, the system office now requires each campus to certify quarterly that staff access to the system is accurate and appropriate. All of these changes should substantially decrease the risk of unauthorized access to the computer system. However, we still have concerns about access to the student information system application.

During our audit, we identified certain high risk student information system transactions. Our primary emphasis was to verify that cashiers did not have the ability to conceal errors or irregularities using sensitive system transactions. We paid particular attention to cashiers because of the inherently higher risk associated with employees responsible for the custody of large volumes of incoming cash. We also addressed the risk of other campus staff having inappropriate access to sensitive transactions.

2. PRIOR FINDING NOT RESOLVED: The Community College System does not have adequate controls over tuition waivers.

The student information system does not provide campus staff with the opportunity to limit the number of users who can post tuition waivers. In addition, some campuses do not have manual controls to assure that tuition waivers entered to the system are appropriate.

Collective bargaining agreements permit most community college employees and their family members to attend a limited number of classes without paying tuition. As seen in Table 2-3, campuses waived over 24,000 credits during the 1991-92 school year. Virtually all of these waivers resulted from the collective bargaining agreements. At the regular tuition rate, these waivers represent almost \$1 million in foregone tuition revenues.

Employees use the same system task to post tuition waivers, as they do to register students for classes. Therefore, every user with registration authority has the ability to post tuition waivers. The ability to post tuition waivers is a sensitive transaction with the risk of users posting unauthorized tuition waivers. The Community College System should separate the authority to waive tuition from the authority to register students for classes.

In addition, some campuses do not verify that tuition waivers granted were valid and matched waiver authorizations. In December 1992, the board office began producing a special computer report named the Course Designator Report, which lists tuition waivers granted. The colleges could use this report to confirm the validity of waivers granted. However, none of the colleges we visited perform a reconciliation of tuition waivers.

Community College System

Table 2-3
Waived Credit Analysis
For the 1991 - 1992 School Year

<u>College</u>	<u>Registered Credits</u>	<u>Waived Credits</u>	<u>Waived as Percent of Registered</u>
Inver Hills	115,653	3,807	3.29%
Fond du Lac	13,174	401	3.04%
Cambridge	29,511	812	2.75%
Austin	32,890	720	2.19%
Lakewood	140,370	2,764	1.97%
North Hennepin	155,040	3,040	1.88%
Anoka Ramsey	125,576	2,252	1.79%
Itasca	36,486	599	1.64%
Minneapolis	109,239	1,687	1.54%
Mesabi	30,495	448	1.47%
Normandale	234,621	3,384	1.44%
Rainy River	17,979	258	1.44%
Brainerd	50,392	676	1.34%
Worthington	25,226	306	1.21%
Northland	25,706	295	1.15%
Fergus Falls	38,881	419	1.08%
Hibbing	29,980	321	1.07%
Rochester	113,892	1,172	1.03%
Willmar	47,327	474	1.00%
Vermilion	24,862	214	0.86%
Duluth	22,112	155	0.70%
Totals	1,419,412	24,204	1.71%

Source: Community College Student Information System data for school year 1991 - 1992.

Finally, Anoka Ramsey Community College has not adequately separated duties by allowing a clerk to collect tuition receipts, with the ability also to waive a student's tuition. The registration office receives both the mail-in registration forms and the corresponding payments. A clerk processes the registrations and forwards the payments to the business office for deposit. The registration clerk and others within the registration office also have the ability to waive tuition charges. We estimated that the campus received over \$100,000 in mail-in registrations during academic year 1991-1992.

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Recommendations

- *The system office should restrict the number of people who have the ability to post tuition waivers within the student information system.*
- *The colleges should perform a reconciliation of tuition waivers granted to the authorizing tuition waiver vouchers.*
- *Anoka Ramsey Community College should sufficiently separate receipt handling duties from registration and waiver authority.*

3. Campuses have not adequately restricted access to sensitive student information system transactions.

Cashiers at some community college campuses have inappropriate access to sensitive student information system transactions. For example, at three of the four campuses we visited, some cashiers have the ability to waive tuition. It could be possible for a cashier to take a student's payment, then conceal the error by using a special transaction to waive the student's tuition. Some cashiers also have access to transactions which allow them to either directly or indirectly alter the amount of tuition assessed to a student. In nearly every case, the cashiers at these campuses indicated they did not need nor routinely used these transactions. To control tuition receipts, campus management should not authorize cashiers to enter tuition waivers and other sensitive student information system transactions.

In addition, staff outside of the business office at some campuses have inappropriate access to sensitive student information system transactions. We identified a wide variety of staff with an unneeded ability to perform sensitive transactions. For example, the Campus Technology Coordinator at Anoka Ramsey Community College has the ability both to register students and change grades. This person's job duties do not require these abilities and the employee does not need to use the transactions. At Normandale Community College, a librarian uses student registration access to perform routine inquiries. This person could get the same information having inquiry-only access. In several other cases, campus financial aid staff had the unneeded ability to reduce tuition assessments.

Recommendations

- *To protect student information system data and resources, campus management should restrict computer system authorizations to only those staff necessary to perform job duties.*
- *The Community College System should perform a more complete analysis of compatibility between system access and job duties for all campuses.*

Community College System

4. The Community College System needs to improve controls over system access passwords.

Community College System staff are not adequately safeguarding system access through proper password controls. Some campus staff share their computer system passwords. Other staff are using very short passwords, which may be easily compromised.

Staff in the registration and admissions office at North Hennepin Community College do not use unique passwords. Instead, the seven full-time staff, including the registrar, use the same password. Likewise, six student workers share another password. Although each employee has a unique user ID, the user IDs are not confidential. Since each employee may have access to different tasks, staff could obtain unauthorized access by using another person's user ID.

Also, responses to our tuition survey indicated that three additional campuses do not assign student workers unique access codes. In one case, the campus responded that student workers use a generic access code. In another case, the students use the accounting supervisor's code. Because their employment may be short and their interest in the tuition system high, access to the student information system by students is of special concern.

Finally, many community college staff are using very short and predictable passwords to control their computer access. The short, predictable passwords may be easily compromised. The Community College System's new access security software provides the option of requiring users to generate a password of a certain minimum length. However, the Community College System is not enforcing a minimum password length. As a result, many staff have assigned themselves only a two or three digit password. In some cases, staff have used their initials as their password.

Recommendations

- *Staff at North Hennepin Community College should develop unique passwords and keep them confidential.*
- *Campuses should assign their student workers unique computer passwords.*
- *The Community College System should consider requiring a minimum password length.*

Tuition Receivable Procedures

Generally, colleges do not consider enrollment to be complete until the student has paid the general fee in full. At most campuses, students who do not pay in full before the first day of class have their registration cancelled and courses dropped. This policy serves to limit the number of outstanding tuition accounts receivable.

However, Community College Board policies allow students to obtain a deferment, or delay paying their tuition, under certain circumstances. Colleges typically grant deferments when the

Community College System

student expects to receive financial assistance from a third party source. The most common deferment is for state and federal student financial aid. The system also may grant a deferment while the student awaits payment of scholarships, veterans benefits, job placement benefits, or other reimbursement. Students participating in the Post-Secondary High School Options program are also granted deferments, since the Department of Education reimburses the system for these students. Finally, pursuant to board policy, a college may grant administrative or hardship deferments, provided it has a plan approved by the chancellor.

The campuses use special codes to identify students with authorized deferments in the student information system. Students with deferred balances remain in student information system accounts receivable records.

Each campus is responsible for monitoring and pursuing unpaid balances. Staff periodically review student information system balance due reports to identify unpaid students. However, there are several weaknesses in the way the student information system handles balances due, which makes tracking and collecting outstanding accounts receivable more difficult for the campuses.

5. The student information system does not provide efficient control over accounts receivable.

The student information system currently does not contain a comprehensive accounts receivable package. Instead, the system produces quarterly balance due reports. These reports are not cumulative. Instead, they show the amounts owing for the current quarter only. In order to determine whether a student has a balance owing from a previous quarter, the campus must request balance due reports individually from prior periods.

In addition, the system currently shows many outstanding account balances which are not valid. Rather, these balances result from certain tuition deferments and waivers which are not cleared from the system.

Nearly all of our survey respondents indicated that the student information system currently does not adequately meet their needs for an accounts receivable system. Among the current system's accounts receivable deficiencies, campuses cited the following:

- the system does not calculate tuition refunds,
- the system does not carry forward balances due,
- the system does not automatically place holds on academic transcripts due to nonpayment, and
- the system is cluttered with "permanent deferments" such as senior citizens, and it does not handle partial deferments.

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As a result of all these issues, many campuses maintain other accounts receivable records outside of the student information system. The need to maintain these supplemental systems results in substantial inefficiencies.

The Community College System is currently planning to re-engineer its computer systems. It expects to include certain improvements to the student information system. Most notably, the re-engineered system will include a comprehensive accounts receivable package and enhanced reporting capabilities. The Community College System expects to implement portions of the re-engineered system as early as spring of 1994.

Recommendation

- *The Community College System needs to implement a comprehensive tuition accounts receivable system.*

6. Some campuses have not assigned accounts receivable monitoring duties to someone independent of the cash receipts process.

On our tuition surveys, eleven of twenty-one campuses responded that the person primarily responsible for monitoring outstanding accounts receivable balances also was primarily responsible to collect tuition receipts. On all four campuses we visited, we found that the person responsible for pursuing tuition collections also performed cashiering duties, an improper separation of duties. Errors could go undetected if an independent person does not pursue or review collection of outstanding balances. The student information system's failure to carry forward outstanding balances to future quarters increases this risk.

Recommendation

- *Each community college should assign a person independent of the cashiering process to review all deferred and outstanding accounts receivable balances on a regular basis.*

7. PRIOR FINDING NOT RESOLVED: Many community colleges do not charge late fees in accordance with the Community College Board policy.

According to our survey, only nine of the twenty-one campuses collect late fees strictly in compliance with the current Community College Board policy. The current policy requires colleges to charge late fees if students 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 of class and do not pay on that day. Students can request a deferment of their tuition and fees to avoid paying these late fees. Colleges routinely do not assess or collect these late fees.

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Recommendation

- *Campuses should collect late fees in accordance with the applicable board policy, or should seek to get the policy modified.*

Completeness of Tuition Collections

In addition to reviewing internal controls, we performed certain tests to try to determine whether the Community College System collected the tuition revenue it was due for fiscal year 1992. We based our tests on the assumption that registration information recorded on the student information system should coincide with receipts recorded on the statewide accounting system. However, we encountered some difficulty in verifying the information on the student information system. As a result, our tests were inconclusive.

8. The Community College System needs to verify the integrity of its student information system data.

The Community College System has not taken sufficient steps to verify that information on the student information system is accurate and reliable. The system office performed an analysis of statewide accounting tuition collections to credits awarded by the Community College System for fiscal year 1992. Its analysis indicated that fiscal year 1992 statewide accounting tuition revenue is consistent with academic credit totals recorded in the student information system. However, system officials told us that they only perform this analysis in conjunction with the biennial budget request. We believe this is a critical comparison which should be performed annually.

In our attempt to independently confirm the completeness of tuition collections, we obtained a copy of student information system computer files for fiscal year 1992 from the Community College System. We tried to reconcile the total value of tuition payments recorded in these files to the total value of tuition receipts shown in the statewide accounting system. We also tried to recreate the student information system academic credit totals used in the system office credit analysis. However, in both cases, we were unable to successfully confirm the accuracy of the information recorded on the student information system. After our audit work had ended, the Community College System discovered that the files it had provided to us were not complete and has since provided us with revised fiscal year 1992 files. Unfortunately, we did not have sufficient time to analyze the revised files. Therefore, we intend to revisit the issue during our next audit of the Community College System.

Recommendations

- *The system office should perform tuition analyses on a regular basis.*
- *The system office must take adequate steps to ensure the integrity of reports and files from the student information system.*

Community College System

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Chapter 3. Appropriation Allocation Process

Chapter Conclusions

The Community College System has allocated its resources to the college campuses and system office in compliance with applicable board policies. State law and board policies permit the system to carryover portions of its appropriation in various accounts each year. At the end of fiscal year 1992, the Community College System carried forward \$15 million or about 10 percent of its available resources into fiscal year 1993.

The Community College System annually allocates its general operating appropriation, along with projected revenues. The system does not reallocate any college appropriation carryover amounts remaining from previous years. The Community College System's general operating appropriation for fiscal year 1992 totaled \$99,486,000. The legislature passed the appropriation pursuant to Laws of 1991 Chapter 336, Article 1, Section 4. The system also had \$10,279,312 in carryover funds from fiscal year 1991 available for use in fiscal year 1992.

Annual Budget Allocation

Each year, the Community College Board approves an extensive policy on allocations and spending plans. According to the policy, the board allocates the general operating appropriation, along with projected revenues, such as tuition and fees, to the campuses and central office. Table 3-1 shows the Community College System's estimate of total resources available for allocation for fiscal year 1992.

Table 3-1
Community College Resources Available for Allocation
Fiscal Year 1992

Budgeted Resources:	
Appropriation Base	\$ 99,486,000 (1)
Governor's Veto - Cambridge	(50,000)(2)
General Fee at FY 91 Rate	48,207,156
Proposed FY 92 General Fee Increase	4,066,425
Non-Resident/Non-Reciprocity	784,373
Application Fees	425,000
Total Estimated Resources Available for Allocation	<u>\$152,918,954 (3)</u>

(1) Laws of 1991 Chapter 336, Article 1, Section 4, Subd. 1.

(2) Laws of 1991 Chapter 336, Article 1, Section 4, Subd. 2.

(3) Total does not include fiscal year 1991 carryover of \$10,279,312 (not subject to reallocation pursuant to Minn. Stat. Section 136.67, Subd. 5).

Source: Community College System Allocation Analysis FY92 - FY 93, dated June 1991.

Community College System

The board policy establishes formulas to allocate the majority of the resources available to the individual campuses. The Community College System cites the major variables in the process that affects the allocations as campus enrollment, special student needs, campus employee length of service (especially faculty), the diversity of the campus programs and services, economies of scale, and fixed costs. The policy provides the basis for direct campus allocations, as well as formulas for funding other items such as repairs and replacements, centers and community learning, instructional equipment, and sabbatical replacements.

Table 3-2 shows the Community College System's allocation of the resources it had available for fiscal year 1992.

Table 3-2
Budgeted Resource Allocation
Fiscal Year 1992

	<u>Original</u>	<u>Less Budget Cut (1)</u>	<u>Revised</u>	<u>Percent</u>
Resources Available for Allocation	\$152,918,954	\$ 0	\$152,918,954	
Less Allocations:				
Direct Campus Allocation	\$121,123,324	(\$3,877,542)	\$117,245,782	76.7%
Repairs and Replacement	2,051,564	(79,683)	1,971,881	1.3%
Centers/Community Learning	5,605,556	(179,452)	5,426,104	3.5%
Instructional Equipment	1,601,807	0	1,601,807	1.0%
Sabbatical Replacements	762,163	0	762,163	.5%
System Office Allocation	7,812,657	(1,239,021)	6,573,636	4.3%
Systemwide Obligations	10,663,668	(327,375)	10,336,293	6.8%
Marginal Funding	<u>2,771,000</u>	<u>0</u>	<u>2,771,000</u>	<u>1.8%</u>
Amount Not Allocated	<u>\$ 527,215</u>	<u>\$5,703,073</u>	<u>\$6,230,288</u>	<u>4.1%</u>

(1) Amount not allocated in anticipation of \$14,585,000 proposed governor's veto for fiscal year 1993.

Source: Community College Allocation Plan for fiscal year 1992.

The Community College Board approves the allocation for the system office. System office operations include personnel and non-personnel expenditures. The board approves total system office positions, both classified and unclassified, along with the associated costs for salary and fringe. The system added three special projects to the system office base in fiscal year 1992 to arrive at the total system office allocation for the year. Like the campuses, the original system office allocation was reduced in anticipation of budget shortfalls.

The Community College System maintains funds not directly allocated to campuses or the central office in a central account, referred to as the "systemwide obligation" account. Funds from this account are allocated to campuses as needed. The system has historically paid such items as arbitration awards, early separation and severance, financial aid, additional insurance,

Community College System

workers and unemployment compensation, and relocation costs from the systemwide obligations account. Although the Community College System can estimate these expenditures fairly accurately throughout the system, they may be difficult to estimate year to year for an individual campus. The system office believes it is more efficient to provide controls over certain expenditures centrally, rather than at each campus. Table 3-3 shows the expected uses of the systemwide obligations account for fiscal year 1992.

Table 3-3
Systemwide Obligations Final Budgeted Allocations
Fiscal Year 1992

Allis Tuition Reimbursements	\$ 900,000
Arbitration Awards	40,000
Assessment of Basic Skills	90,000
Bush Match	67,000
Contingency	500,000
Debt Service Costs	1,439,168
Early Separation/Severance	1,400,000
Financial Aids	825,000
Fringe Benefits	200,000
Insurance - Additional Employees	150,000
Intersystem Cooperation	65,000
Long Term Substitutes	100,000
Relocation Expenses	40,000
Sabbatical Replacements	40,000
Student Success and Diversity	2,650,000
Column Changes/Roster Corrections	175,000
Underserved Populations	950,000
Wolf Center	55,125
Workers/Unemployment Comp.	650,000
Total Systemwide Obligations	<u>\$10,336,293</u>

Source: Community College Allocation Plan for fiscal year 1993, dated May 1992, and memo to Neil Christenson dated July 26, 1991.

The Community College System originally chose not to allocate \$6.2 million of resources available for fiscal year 1992. At the time the allocation plans were being developed, the system was awaiting the outcome of a court challenge concerning the governor's veto of \$14,585,000 in non-instructional expenditure appropriations for fiscal year 1993 (pursuant to Laws of 1991, Chapter 356, Article 1, Subd. 3). In an attempt to spread the potentially vetoed amount over a two year period, the system office withheld a portion of the fiscal year 1992 funding. Late in fiscal year 1992, the courts found the attempted veto to be invalid and the amounts originally withheld became available for allocation. As of June 30, 1992, the system still held \$4.9 million of the amount it withheld in anticipation of the veto.

Community College System

Table 3-4 shows the total resources available to the campuses, including their direct and indirect allocations, as well as the amounts they carried over from fiscal year 1991, pursuant to Minn. Stat. Section 136.67, Subd. 5.

The system office works with the campuses to finalize their allocations and spending plans, based on total campus resources available. According to the Community College System,

It is the System philosophy to give colleges as much flexibility as possible in responding to local needs. Therefore, the allocation process is a method of equitably distributing funds, rather than a mandated expenditure pattern. Within specified conditions, funds may be budgeted at the discretion of each college.

Appropriation Carryover

The Community College System may carryover any unexpended balance from its appropriation within and between bienniums. Minn. Stat. Section 136.67, Subd. 5 states "The amounts carried over must not be taken into account in determining state appropriations and must not be deducted from a later appropriation." The Legislature has granted the system this carryover authorization since 1984. As a result, the Community College System's biennial budget request routinely shows a line item titled "adjust out carryforward" as a deduction to their same level funding totals.

Since 1984, the Community College System carryover amounts have steadily increased. Much of the increase has come from specific policy decisions on the part of system management. The system office has encouraged the campuses to build reserve accounts to help offset future financial deficiencies. The system office and systemwide carryover amounts have also increased over a period of years. Figure 3-1 shows the trend of Community College System carryover since 1984.

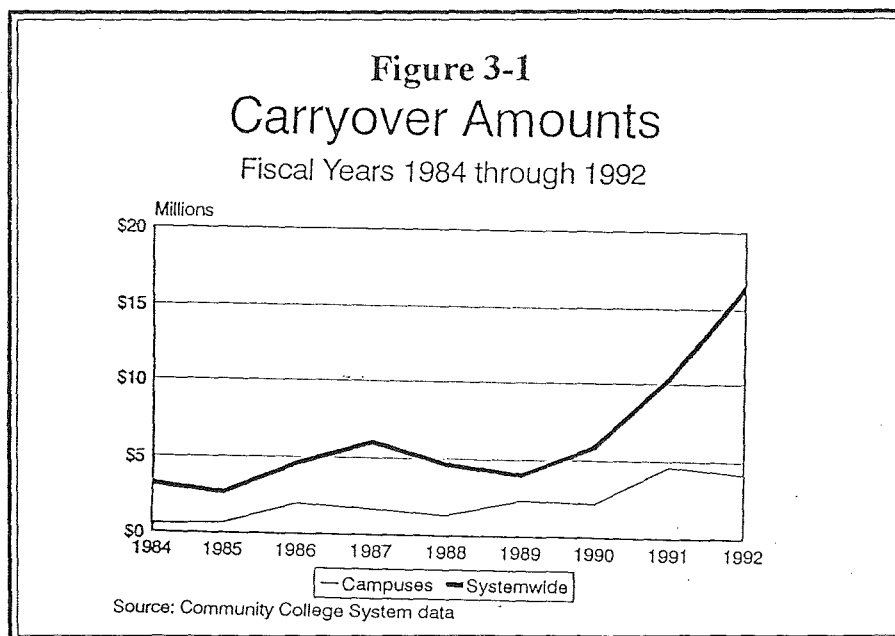


Table 3-4
Final Campus Allocation Summary
Fiscal Year 1992

	<u>Initial Allocation</u>	<u>Repairs and Replacements (1)</u>	<u>Centers/ Community Learning (1)</u>	<u>Sabbatical Replacements (1)</u>	<u>Instruction Equipment (1)</u>	<u>Carryover 1991 (2)</u>	<u>Systemwide Allocation (3)</u>	<u>Total Campus Resources</u>
Normandale	\$17,562,222	\$ 187,400	0	\$127,531	\$ 106,413	\$ 385,189	\$1,441,380	\$19,810,135
North Hennepin	11,694,533	140,107	0	90,731	128,006	947,324	1,075,420	14,076,121
Lakewood	10,634,276	127,065	\$ 398,476	80,938	202,485	123,021	845,744	12,412,005
Anoka-Ramsey	10,119,446	144,571	0	94,894	161,169	625,972	654,309	11,800,361
Minneapolis	9,052,766	111,711	71,664	50,806	138,305	520,107	773,543	10,718,902
Inver Hills	9,302,389	109,900	174,000	72,637	86,404	869,987	875,985	11,491,302
Rochester	9,952,679	150,871	0	64,512	90,431	79,805	750,031	11,088,329
Brainerd	4,482,144	57,606	0	15,436	83,859	111,285	281,017	5,031,347
Northland	2,850,448	40,845	0	20,484	49,565	117,775	152,950	3,232,067
Fergus Falls	3,600,981	60,580	0	7,718	57,370	143,449	228,099	4,098,197
Clearwater Reg. Office	96,005	0	59,146	0	0	78,357	115,995	349,503
Itasca	4,177,534	79,981	0	0	30,177	(39,767)	254,797	4,502,722
Fond du Lac	0	0	925,442	0	40,330	97,832	84,269	1,147,873
Duluth	0	0	1,710,324	0	74,899	181,687	157,547	2,124,457
Rainy River	2,567,419	37,552	0	0	27,172	182,129	158,859	2,973,131
Hibbing	3,434,875	76,909	0	0	24,588	40,235	163,473	3,740,080
Mesabi	3,383,134	72,233	0	0	19,028	(194)	182,893	3,657,094
Vermilion	2,686,049	43,140	0	0	33,881	11,974	110,973	2,886,017
Arrowhead Reg. Office	549,213	0	392,040	104,716	0	163,430	340,339	1,549,738
Cambridge	0	0	1,695,012	0	84,226	(12,453)	171,809	1,938,594
Worthington	2,934,573	68,714	0	0	58,040	74,387	172,703	3,308,417
Willmar	4,457,216	63,968	0	23,154	47,626	218,745	303,247	5,113,956
Austin	3,707,880	89,259	0	8,606	57,833	109,404	346,185	4,319,167
Total	<u>\$117,245,782</u>	<u>\$1,662,412</u>	<u>\$5,426,104</u>	<u>\$762,163</u>	<u>\$1,601,807</u>	<u>\$5,029,680</u>	<u>\$9,641,567</u>	<u>\$141,369,515</u>

(1) Available to campuses July, 1991.

(2) Available to campuses January, 1992.

(3) Available in installments July 1991, January, April, May, July, 1992.

Source: Community college campus allocation data.

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According to system office officials, the magnitude of the carryforward amount is due to timing. The amount of carryforward in FY 1992 grew as receipts attributable to the fiscal year came in after June 30, 1992. It also grew as encumbrances were cancelled after June 30, 1992. The system office allocated \$4,257,367 of the fiscal year 1992 systemwide balance in fiscal year 1993.

Table 3-5
Community College System Carryover Amounts
Fiscal Years 1990 - 1992

	As of June 30		
	1990	1991	1992
Anoka Ramsey Community College	\$ 188,978	\$ 625,972	\$ 470,311
Cambridge Center	(6,765)	(12,453)	71,351
Hibbing Community College	28,308	40,235	55,780
Itasca Community College	(60)	(39,767)	13,622
Mesabi Community College	26,284	(194)	8,633
Rainy River Community College	41,590	182,129	190,842
Vermilion Community College	67,616	11,974	22,985
Arrowhead Region Office	64,386	163,430	176,249
Arrowhead Region Centers	99,010	279,519	27,267
Austin Community College	(5,979)	109,404	86,729
Brainerd Community College	(12,928)	111,285	142,968
Fergus Falls Community College	57,206	143,449	171,683
Northland Community College	72,605	117,775	144,474
Clearwater Region Office	45,804	78,357	52,925
Inver Hills Community College	466,382	869,987	944,631
Lakewood Community College	39,709	123,021	137,559
Minneapolis Community College	355,009	520,107	121,826
Normandale Community College	19,332	385,189	121,491
North Hennepin Community College	622,551	947,324	860,769
Rochester Community College	(10,457)	79,805	(56,098)
Willmar Community College	89,549	218,745	246,247
Worthington Community College	40,523	74,387	181,359
Campus Subtotal	<u>2,288,653</u>	<u>5,029,680</u>	<u>4,193,603</u>
System Office	832,668	1,253,603	1,775,066
Other	(647,669)	699,161	314,673
Systemwide Balances	3,407,869	3,296,868	9,623,105
Total Carryover	<u>\$5,881,521</u>	<u>\$10,279,312</u>	<u>\$15,906,447</u>

Note: Negative numbers indicate overspent allocation.

Source: Community College System data.

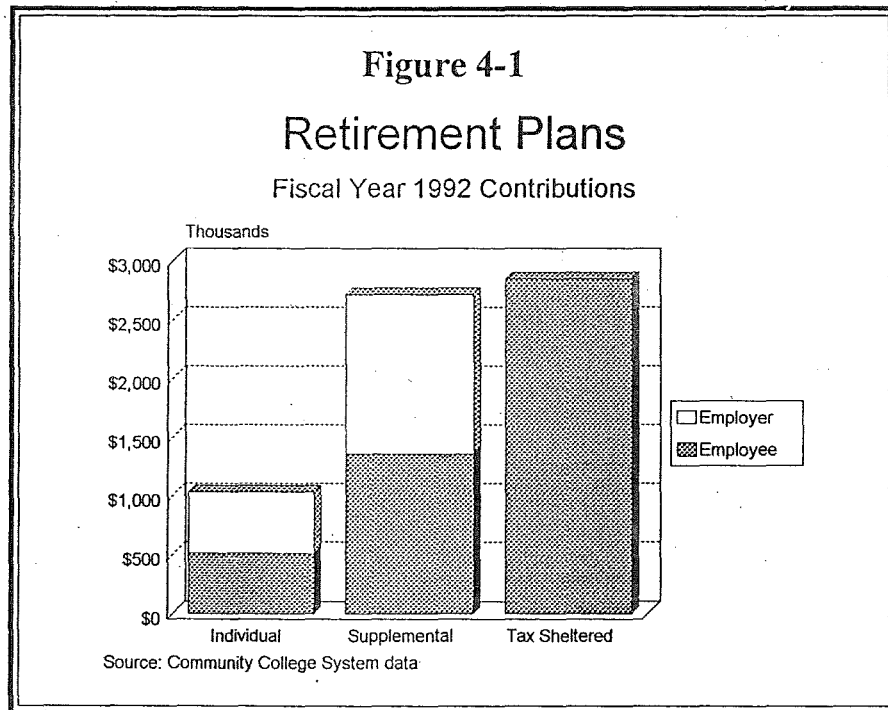
Chapter 4. Retirement Plans

Chapter Conclusions

We found two problems with the way the Community College System administers the supplemental retirement plan. First, the system office has not adequately managed the administrative costs relating to the supplemental plan. In addition, the system office had inadequate controls over certain mandatory redemptions it distributed during fiscal year 1992. However, the Community College System has administered the supplemental retirement plan in compliance with applicable laws and regulations.

We also reviewed the administration of the individual retirement plan and the tax sheltered annuity program. We found that the controls over these programs were operating effectively.

The Community College System administers three retirement plans. These include two defined contribution retirement programs -- the individual retirement account plan and the supplemental retirement plan, and a voluntary tax sheltered annuity program. Figure 4-1 shows employer and employee contributions made to the various retirement plans during fiscal year 1992.

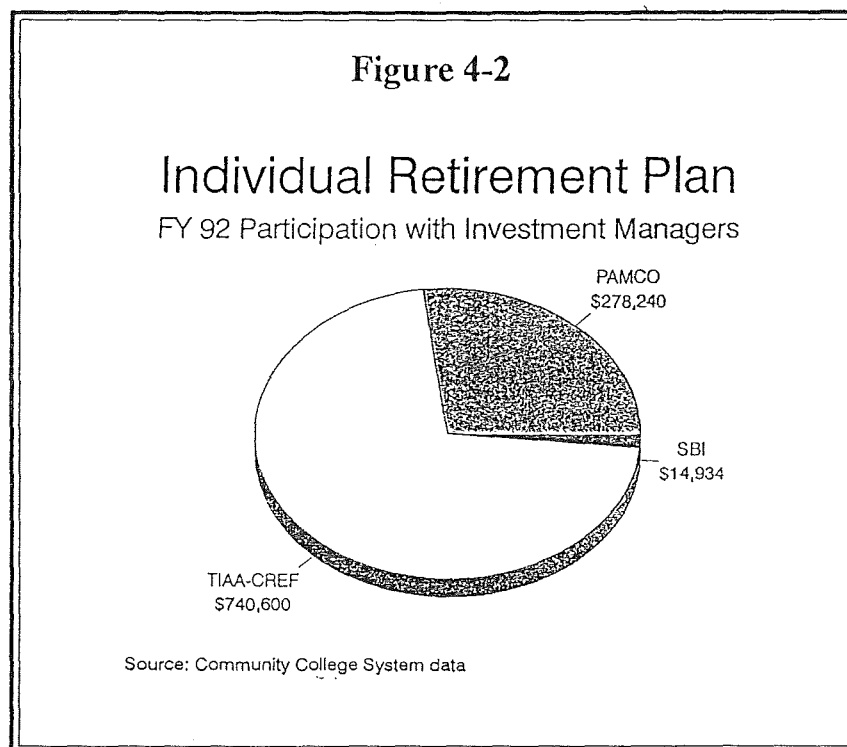


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Individual Retirement Account Plan

The legislature established the individual retirement account plan in 1988 and the system office began administering it on July 1, 1989. At that time, existing employees had the option of joining the individual retirement account plan or maintaining their membership with the Teachers Retirement Association. The plan covers unclassified employees, including faculty who teach more than 25 percent time, excluding summer session, for one year. Participation in the individual retirement account plan is mandatory for new community college employees. Employees contribute 4.5 percent of their salary through payroll deductions. The system matches these employee contributions. Upon retirement, individual retirement account plan employees may elect to receive benefits in a lump sum or to purchase an annuity. Members are 100 percent vested in employee and employer contributions. Individual retirement account plan contributions totalled \$1,019,159 in fiscal year 1992.

The individual retirement account plan offers participants a choice of three investment managers and many different investment options. The three investment managers are the Minnesota State Board of Investment (SBI), the Prudential Asset Management Company (PAMCO), and the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Figure 4-2 shows participant use of the three investment managers during fiscal year 1992.



We tested individual retirement account plan contributions and payments and found them to be accurately accounted for and reported.

Community College System

Supplemental Retirement Plan

The 1967 legislature established the supplemental retirement to provide additional retirement benefits for employees of the Community College and State University Systems. This plan is separate and distinct from the individual retirement account plan. The Teachers Retirement Association originally administered the plan. Members invested their contributions in the Minnesota Supplemental Investment Fund administered by the State Board of Investment. The 1990 legislature transferred administration of the plan to the Community College System and the State University System effective July 1, 1991. At the time of transfer, Community College System members owned assets with a market value of \$47,654,935, approximately 30 percent of the Supplemental Investment Fund.

Participation in the supplemental retirement plan is mandatory for employees who have two or more years of full-time unclassified service. After an employee earns \$6,000, the employee contributes five percent of salary, through payroll deduction, to a maximum determined by collective bargaining agreements. The maximum contribution amount was \$1,100 in fiscal year 1992 and \$1,350 in fiscal year 1993. During these years, the Community College System matched employee contributions up to the maximum contribution amount. Total employee and employer contributions to the supplemental retirement plan were \$2,769,392 in fiscal year 1992.

Supplemental retirement members have the same investment manager options as the individual retirement account. The three investment managers are the Minnesota State Board of Investment (SBI), the Prudential Asset Management Company (PAMCO), and the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Unlike the individual retirement plan, most participants in the supplemental retirement plan have maintained their investments with the State Board of Investment. Until the Community College System began administering the plan, SBI was the participants' only choice. Subsequently, many participants have continued to use SBI. Figure 4-3 shows participant use of the three investment managers during fiscal year 1992.

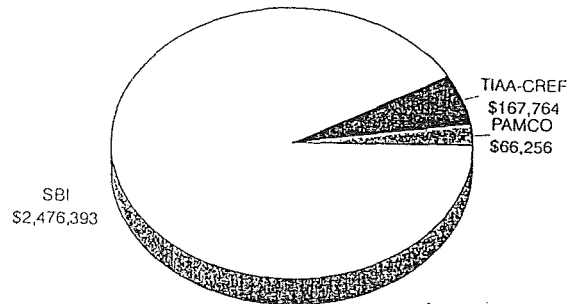
A member's account remains invested in the fund until the member retires, dies, or terminates service. Upon retirement at age 55 or older, the member (or upon death, the spouse) receives the market value of the account, including the employer's contributions. The member may elect to purchase an annuity or to receive a lump sum payment. Prior to fiscal year 1993, an employee who terminated service before reaching age 55 received only the member's contribution. Effective July 1, 1992, participants are 100 percent vested in all employer matching contributions regardless of years of unclassified service or age.

Except for the issues cited in findings 10 and 11, we found that the system office accurately processes contributions and records transactions. The supplemental retirement program is in compliance with applicable legal provisions.

Community College System

Figure 4-3

Supplemental Retirement Plan FY 92 Participation with Investment Managers



Source: Community College System data

9. The Community College System has not adequately managed supplemental plan administrative costs.

The system office estimates that fiscal year 1993 total administrative costs will exceed receipts by at least \$99,356. Cost overruns on contracts will contribute to this deficit. The system office further subsidizes the plan by paying salaries for employees who work with the plans, as well as paying for most supplies and postage.

The system office receives funds from various sources to administer the supplemental retirement plan. These include a two percent retainage of supplemental retirement contributions and short term interest on contributions. Also, during fiscal year 1992, it received forfeits of the employer's contributions for members who terminated before age 55 and applied for a refund. Administrative receipts totalled approximately \$78,545 in fiscal year 1992. The plan collected \$55,400 from contribution deductions, earned \$18,069 in short term interest, and received forfeits totalling \$5,076. For fiscal year 1993, the system office elected to receive an asset-based fee from the State Board of Investment, as an additional revenue source. The system office will use this fee of approximately \$4,300 a month to pay administrative expenses of the plan.

Administrative receipts have not been sufficient to cover total administrative expenses. As a result, the Community College System's General Fund operating appropriation has funded some

Community College System

of the retirement plan's administrative costs. One reason for the administrative cost deficits results from the system office administration of certain retirement plan contracts. The system office contracts with an accounting firm to provide recordkeeping and consulting services. It also has an agreement with a consultant to review investment performance of the plan. We found problems with both of these contracts.

The system office paid \$20,940 more than it had budgeted for retirement plan recordkeeping and consulting services during fiscal year 1992. It appeared that, within the contract, the consultant had agreed to provide all the necessary services for a fixed price. However, the consultant continued to send bills beyond the contract amount. Therefore, the system office incurred liabilities before encumbering funds. Although the system office made some retroactive amendments to the contract, it never fully amended the contract to correspond to the total amount paid. In addition, the contractor did not provide detailed invoices to the system office. It was, therefore, impossible to ensure compliance with terms and conditions of the contract.

A similar situation has occurred with the same contractor in the fiscal year 1993 contract. The original contract, for \$52,800, was for the two year period from August 1, 1992 through June 30, 1994. In March 1993, the system office approved an amendment to bring the total contract compensation to \$98,000. For services through June 30, 1993, the system office had already paid the contractor over \$111,000.

The system office also paid the other retirement plan consultant more than originally approved. The original agreement was for \$4,900. However, through amendments, the system office paid the consultant \$6,378 during fiscal year 1993. As with the other contractor, the system office amended the agreement only after receiving invoices indicating additional amounts due.

Recommendations

- *The system office should review its supplemental plan administrative cost structure to minimize administrative cost deficits.*
- *The system office must adhere to and enforce the agreed upon terms and conditions of contracts. This should include:*
 - *monitoring dates of service,*
 - *adequately reviewing invoices before payment, and*
 - *making timely contract amendments when needed.*

10. System office controls over distributing mandatory redemptions are inadequate.

In November 1992, the system office sent supplemental retirement redemption checks to 56 inactive members. None of these members had requested refunds. The system office refunded the contributions of members who had been inactive for more than one year with less than \$3,500 in their account. It also sent minimum distribution checks to members who had attained the mandatory 70 1/2 year old withdrawal age. As of May 1993, two refund checks remain uncashed.

Community College System

The system office has not consistently required members with balances less than \$3,500 to take a refund.

The system office did not require any written verification or authorization from the members before mailing refund checks. Normally, the system office requires terminated employees and retirees to complete notarized redemption forms before receiving refunds. In this case, however, the system office sent a notification letter to the last known address of the member. If the letter did not come back, the system office assumed the address to be correct and mailed the refund check to that same address. It sent only the minimum distributions by certified mail; the other refund checks were sent by regular mail.

We do not believe that the system office exercised proper caution in distributing these involuntary refunds. It did not properly ensure that the appropriate plan member actually received and cashed the refund checks. In addition, in the case of any deceased members, the system office would not be able to determine whether the member's beneficiary wishes were carried out. The system office, as custodian of funds for plan members, must safeguard the assets from unauthorized use and disposition.

Because of this weakness, we sent confirmations to a sample of members who received benefits without their consent. Three of seventeen members did not respond to our confirmations. Of those three, the check for one remains uncashed. As a result, we were unable to conclude whether that member actually received a refund check.

One member who did respond to the confirmation indicated that she had never received a refund check. The check remains uncashed. Since the member did not request a refund, the person had no way of anticipating a check. As a result, neither the member nor the system office were aware that the check had not reached its intended destination.

We did not receive a confirmation from one member whose refund check was mailed in care of an Illinois law firm. The law firm told us that it had never represented the member and had no knowledge or information about the member. The law firm had returned the refund check to the system office. In December 1992, the system office obtained another address for the member and remailed the original check. The check remains uncashed.

Recommendations

- *The system office should verify that members given mandatory redemptions actually received their checks.*
- *The system office should follow up immediately on those members who have not cashed their refund checks.*
- *The system office should develop mandatory redemption policies and procedures. This includes adding specific language to the plan document and treating member accounts consistently.*

Community College System

Tax Sheltered Annuity Program

The system office also administers a plan for employees to purchase tax sheltered annuities. It makes salary deductions and purchases annuities or retirement income contracts for employees. Employees choose their own insurance company. Purchases of tax sheltered annuities totalled approximately \$2,841,417 in fiscal year 1992.

We reviewed the process for collecting contributions and purchasing annuities. We found that controls over the process were operating effectively. We also found that the system was in compliance with the finance-related laws and regulations pertaining to the tax sheltered annuity program.

Community College System

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Office of the Chancellor
203 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101-4798
(612) 296-3990

November 15, 1993

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

Dear Jeanine:

In response to the Legislative Auditors' findings and recommendations contained in the audit report of selected activities of the Community College System as of and for the year ended June 30, 1992, the following actions will be taken:

Chapter 2. Tuition Revenue

FINDING 1: Some campuses have an inadequate separation of duties related to the cash reconciliation process.

Recommendation:

A person independent of the cashiering function should either reconcile student information system tuition postings to cash register receipts daily, or review and verify the cash reconciliations.

Response:

The System Internal Auditor will establish an audit schedule to insure that each campus has a person independent of the cashiering function to perform the cash reconciliation process, or review and verify the cash reconciliations, on a daily basis.

Person Responsible: James Harris, Internal Auditor
Implementation of Recommendations: December 31, 1993

FINDING 2: Prior finding not resolved: The Community College System does not have adequate controls over tuition waivers.

Minnesota Community Colleges

Recommendations:

- A. The system office should restrict the number of people who have the ability to post tuition waivers within the student information system.
- B. The colleges should perform a reconciliation of tuition waivers granted to the authorizing tuition waiver vouchers.

Response:

A & B.

The tuition waiver process is initiated by the student. In order for a student to receive a waiver, the tuition waiver form must be completed by the student and signed by the personnel department. The form is given to the registration office during registration. During peak registration periods, it would be disruptive to separate the authority to waive tuition from the authority to register students for classes. The System Office will request each college designate a staff person, who does not have authority to register students, to reconcile tuition waivers granted, to the tuition waiver forms, on a routine basis.

Person Responsible: Glenn Wood , Director of Finance

Implementation of Recommendations: December 31, 1993

Recommendation:

- C. Anoka Ramsey Community College should sufficiently separate receipt handling duties from registration and waiver authority.

Response:

- C. The registration office currently receives the mail-in registration forms and corresponding payment. The payments are most often made by a check, payable to the college. A third party may pay on behalf of the registering student. In order for the business office to properly record receipt of tuition to the student's account, the registration form or a copy must accompany the check. To sufficiently separate the receipt handling duties from the registration process, each piece of mail addressed to the registration office would have to be opened by a staff person independent of the process. This person would have to copy every mail-in registration form that is to be sent to the business office along with the check. This would cause a great deal of work . The System Office and Anoka-Ramsey Community College believe that control over the mail-in process can be achieved by having a staff person, who does not have registration or receipt responsibilities, reconcile the tuition waivers granted to the authorizing tuition waiver forms on a routine basis.

Person Responsible: Bonnie Anderson, Dean of Administration

Implementation of Recommendations: Immediately.

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FINDING 3: Campuses have not adequately restricted access to sensitive student information system transactions.

Recommendations:

- A. To protect student information system data and resources, campus management should restrict computer system authorizations to only those staff necessary to perform job duties.
- B. The Community College System should perform a more complete analysis of compatibility between system access and job duties for all campuses.

Response:

- A. The System Office will request that each campus Computer Technical Coordinator review authorizations to determine that staff are cleared to access only transactions required in their job.

Person Responsible: Glenn Wood, Director of Finance

Implementation of Recommendations: December 31, 1993

- B. The System Internal Auditor will review, on a quarterly basis, the transactions that employees are authorized to perform within the student information system. The findings will be presented to local campus administrations for review and change where appropriate.

Person Responsible: James Harris, Internal Auditor

Implementation of Recommendations: June 30, 1994

FINDING 4: The Community College System needs to improve controls over system access passwords.

Recommendation:

- A. Staff at North Hennepin Community College should develop unique passwords and keep them confidential.

Response:

- A. North Hennepin Community College is very concerned about the negative effect that requirements to change passwords within the registration area at certain intervals have on the ability to serve our customers, the students. Due to the fact that we have only six staff serving over 6,000 students at crunch times, we need to maximize utilization of staff and have them perform several functions at one time. For example: a staff member might be answering a class availability inquiry over the phone while one or two students are making course

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selections at a window. Each employee in these circumstances is using more than one computer. Also, due to the number of people in the registration area, it is virtually impossible for someone to tamper with a data base or negatively affect security. Due to these circumstances, the College requests that members of the legislative audit staff make a site visit to our registration area to work with our staff to achieve a resolution to security issues that would not inhibit service to our students and enable us to maximize staff utilization.

Person Responsible: Dr. Fred Capshaw, President, North Hennepin Community College
Implementation of Recommendations: Pending

Recommendation:

B. Campuses should assign their student workers unique computer passwords.

Response:

B. The System Office will remind each campus Computer Technology Coordinator of the security system's requirements that each student worker be assigned a unique access code.

Person Responsible: Glenn Wood, Director of Finance
Implementation of Recommendations: December 31, 1993

Recommendation:

C. The Community College System should consider requiring a minimum password length.

Response:

C. The Community College System Computer Services Division will upgrade the existing security system to require a minimum password length of FIVE (5) digits.

Person Responsible: Dale Jarrell, Director of Computer Services
Implementation of Recommendations: January 1, 1994.

FINDING 5: The student information system does not provide efficient control over accounts receivable.

Recommendation:

The Community College System needs to implement a comprehensive tuition accounts receivable system.

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Response:

The Community College System is planning to implement a comprehensive accounts receivable system for fiscal year 1995. Initial implementation will begin in May, 1994 at Inver Hills Community College and Anoka-Ramsey Community College. System requirements are to include:

1. Interfaces with other automated systems such as the Statewide Accounting System, Financial Aid SAFE system, and the Student Information System.
2. Provide accumulative balance forward from previous transactions.
3. Capture all fees assessed.
4. Provide complete financial history of students charges, payments, deferments, waivers, refunds and financial aid.
5. Allow for deferments to students account when a third party will be providing the funds. The system will establish a third party receivable.
6. Calculate the proper refund amount to include history verification, distribution to student, financial aid, or third party, and prepare refund check.
7. Ability to accept and account for all cash received at a college.
8. Ability to place a hold on a student's transcript and registration.
9. Provide information on aging of accounts receivable.
10. Ability to budget and track receipts.
11. Provide a billing for receivables due.
12. Assist in the collection of past due accounts through revenue recapture or a collection entity.
13. Assess late fees.
14. Enhanced reporting capabilities.

Person Responsible: Scott Erickson, Associate Director of Finance

Implementation of Recommendations: August 1995.

FINDING 6: Some campuses have not assigned accounts receivable monitoring duties to someone independent of the cash receipts process.

Recommendation:

Each community college should assign a person independent of the cashiering process to review all deferred and outstanding accounts receivable balances on a regular basis.

Response:

The System Office will request each campus assign a person, independent of the cashiering functions, to review all deferred and outstanding accounts receivable balances.

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Person Responsible: Glenn Wood, Director of Finance

Implementation of Recommendations: December 31, 1993

FINDING: 7: Prior Finding not resolved: Many community colleges do not charge late fees in accordance with the Community College Board policy.

Recommendation:

Campuses should collect late fees in accordance with the applicable board policy, or should seek to get the policy modified.

Response:

In March of 1993, a task force was created to review and report on the special fees charged to students at Minnesota Community Colleges. One of the task forces recommendations was to modify Board Policy V.01.02 Resources, to state that a late fee of \$5.00 may (instead of shall) be charged to any student who does not pay the regular fees prior to the first day of classes of that session, and to any student who registers on or after the first day of classes and does not pay the regular fees on the day of registration. A maximum amount of \$23 in late fees for each quarter is also recommended. A guideline/procedure will be developed to ensure that the decision to charge or not charge the late fee is consistently applied to all students.

The task force report was discussed at the president's November meeting and will be presented for approval at the Board's January 1994 meeting.

Person Responsible: Ann Sidoti, Director of Student Services

Implementation of Recommendations: January 20, 1994

FINDING 8: The Community College System needs to verify the integrity of its student information system data.

Recommendation:

A. The System Office should perform tuition analyses on a regular basis.

Response:

A. The System Office will perform tuition analyses on an annual basis.

Person Responsible: Glenn Wood, Director of Finance

Implementation of Recommendations: Immediately

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Recommendation:

- B. The System Office must take adequate steps to ensure the integrity of reports and files from the student information system.

Response:

- B. Data integrity is an ongoing major priority within MCCS. A process for reviewing and determining report integrity for standard reporting is already in place. This process includes verification during system development, validation by college and system personnel during testing and ongoing validation by college personnel after implementation. It is the opinion of MCCS that the standard student information system reports and files do not have integrity problems.

Special ad hoc reports are different and more complex. These reports require unique processing and extract data that cannot always be easily validated. Reports of this nature are also requested with timelines that do not allow for extensive testing and validation. The information extracted for the audit tape falls in this category. It would appear that this audit comment is addressing these types of reports (ad hoc reports and files) and not all student information system reports and files. Every effort was made by MCCS personnel to validate the information requested prior to releasing it to the Legislative Auditors Office.

Unfortunately, some information was excluded. I do agree that additional steps must be taken to validate special requests (ad hoc reports and files) prior to their release to the Legislative Auditors. However, this process will require extending the processing timelines to allow MCCS personnel time to validate information prior to releasing this information.

Person Responsible: Dale Jarrell, Director of Computer Services

Implementation of Recommendations: Immediately.

Chapter 3 --Appropriation Allocation Process

There were no findings in this chapter.

In regards to the discussion of Appropriation Carryover:

In anticipation of a reduction in the state appropriation in fiscal year 1994, our colleges were advised to establish a reserve to help stabilize course offerings and student services. Initial discussions were held with our presidents during February 1992 meetings. This planning process is now in the implementation phase. A reduced level of state appropriation, resulting from state revenue shortfalls and other technical adjustments in our base funding, will require the use of fiscal year 1993 carryover funds in this fiscal year (1994). In addition, unallotment of up to \$2 million dollars would result from the implementation of the state's budget contingency plan.

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Chapter 4. Retirement Plans

FINDING 9: The Community College System has not adequately managed supplemental plan administrative costs.

Recommendation:

- A. The system office should review its supplemental plan administrative cost structure to minimize administrative cost deficits.
- B. The system office must adhere to and enforce the agreed upon terms and conditions of contracts.

Response:

A & B.

The Minnesota Community College System Defined Contribution Retirement Plan is composed of the Individual Retirement Account Plan (IRAP) and the College Supplemental Retirement Plan (SRP). The Plan has nearly 3,000 participants and over \$60 million in retirement contributions and investment earnings held in trust for participants. Administrative responsibility within the System has been assigned to the Plan Administrator in the Human Resources department, who works closely with human resources and finance staff to administer the plan provisions and monitor relationships with the three plan investment managers (State Board of Investment, Prudential, and TIAA-CREF). None of the System Office staff assigned responsibilities in the area of retirement plan administration performs these duties only; all have other major assignments in human resources or finance.

In 1991, the System assumed responsibility for maintaining all records for Plan participants who select the State Board of Investment (SBI) option. With over \$50 million in SBI holdings and a lack of staff expertise to perform this task, contracting with an accounting firm to provide such services was the only prudent course of action. Because System Office staff working in this area have had other major assignments, and because the issues presented in this area are complicated, the System has also used accounting consultants to assist and advise staff in addressing both State and Federal regulatory issues. When the System initially became involved in retirement plan administration, the extent to which these issues would impact daily administrative activities could not be fully anticipated; as such, the specific duties to be performed by the consulting firm were not adequately defined.

In the period between July 1, 1991 - June 30, 1993, System staff were required to address such topics as the SRP's noncompliance with Federal minimum distribution requirements; Plan compliance with the maximum exclusion allowance requirements of section 415 of the Internal Revenue Code; preparation of comprehensive financial statements for the Department of Finance and the Office of the Legislative Auditor; and routine inquiries from Plan participants

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about the taxable status of their account and any distributions.

The extent of the System's use of accounting consultants has been in response to the serious and complex issues presented by assuming administrative responsibility for a plan of this magnitude. At this point in time we believe that the major issues have been addressed and that there will be a limited need for consultative services in the future. Accordingly, we will implement the recommendations of the Legislative Auditor and more specifically delineate needed consultative assistance, and separate these duties from record keeping services in the contracts which are issued. Finance staff will also begin to provide monthly budget reports which will allow more careful monitoring of retirement plan revenue and expenditures. Finally, the pending merger of the higher education systems will allow us to explore coordination of retirement plan administrative activities with the staff of the State University System.

Person Responsible: Anne Weyandt, Director of Executive and Staff Services

Implementation of Recommendations: All have been implemented.

FINDING 10: System office controls over distributing mandatory redemptions are inadequate.

Recommendation:

- A. The system office should verify that members given mandatory redemptions actually received their checks.
- B. The system office should follow up immediately on those members who have not cashed their refund checks.
- C. The system office should develop mandatory redemption policies and procedures. This includes adding specific language to the plan document and treating member accounts consistently.

Response:

- A. All retirement distribution checks are sent by certified mail. In this specific instance, the System followed up on the uncashed checks by utilizing the Internal Revenue Service's procedures for notifying participants for whom an address is unknown or incorrect. All participants have cashed their checks or they have been contacted personally so we can reissue a check to the participant.
- B. In the future we will follow up on those members who have not cashed their refund checks immediately.
- C. The system has developed mandatory redemption policies and procedures. This includes adding specific language to the plan document and treating members' accounts consistently.

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We require completed distribution forms from all participants who request a distribution, including those for whom we are required by law or plan procedures to make a mandatory distribution. These procedures apply to all three of the Plan's investment managers. The restated Plan document and administrative manual contain specific procedures to address and guide all future administrative actions of this type.

Person Responsible: Anne Weyandt, Director of Executive and Staff Services
Implementation of Recommendations: January 1, 1994

We would like to thank the Legislative Auditor's staff for their review and recommendations. If you have any follow-up questions or concerns please contact us.

Sincerely,

A handwritten signature in cursive script, appearing to read "Geraldine Evans".

Dr. Geraldine Evans
Chancellor

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