

Lake Superior College

Financial Audit

For the Period July 1, 1995, through December 31, 1996

May 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-24



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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Lake Superior College

We have audited Lake Superior College for the period July 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, supplies, services and equipment, bookstore activities, grants, and gifts. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audits. The standards also require that we design the audit to provide reasonable assurance that Lake Superior College complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of Lake Superior College is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Lake Superior College. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 2, 1997.

James R. Nobles
Legislative Auditor

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Deputy Legislative Auditor

End of Fieldwork: February 28, 1997

Report Signed On: April 25, 1997

SUMMARY

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Lake Superior College

Financial Audit

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Background Information

The Minnesota State Colleges and Universities System (MnSCU) established Lake Superior College through the consolidation of the Duluth Technical College and the Duluth Community College Center. The technical college operated as part of Independent School District No. 709 through June 30, 1995. The Duluth Community College Center, a branch of the Arrowhead Community College, operated as part of the state's system of community colleges through June 30, 1995. The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. MnSCU merged 8 state colleges, 21 community colleges, and 34 technical colleges, including Lake Superior College, into one common system. The mission of Lake Superior College is to provide teaching, learning, and access to high quality affordable educational opportunities for diverse populations in Duluth and the surrounding region. The Chancellor of the Higher Education Board appointed Dr. Harold Erickson as the president of the college effective July 1, 1995.

Our audit scope included a review of tuition and fees, payroll, supplies, services and equipment, bookstore activities, and other grants for the period July 1, 1995 through December 31, 1996. We also audited the administration of the federal student financial aid program for fiscal year 1997.

Conclusions

We noted significant weaknesses in the financial management of Lake Superior College. The consolidation of the community college and the technical college and heavy concentration of duties in one key business office position contributed to the financial management problems. Problems included the failure to record complete and accurate financial activity on MnSCU's accounting system. In addition, cash was not transferred to the state treasury timely. Major controls such as the reconciling bank account activities and MnSCU's accounting records were incomplete. The college did not implement all of the recommendations related to financial controls that we presented in our last audit report (Report 96-35).

We also noted problems in most financial activities. The college has not properly administered its tuition and fees accounts receivable function. The college did not process payroll position requests timely and duplicate payments were made to some employees. The college properly administered expenditures for supplies, services, and equipment. However, the college did not have an inventory of its equipment. The college did not prepare accurate financial statements for the bookstore activities to assist it in monitoring the financial activities. In addition, shortages in bookstore receipts were not monitored or investigated by the college. The college did not record student financial aid on the MnSCU accounting system and did not properly transfer federal financial aid revenue to the state treasury for tuition and fees. The college properly administered other federal grants and gifts. Finally, the college did not have an effective relationship with its affiliated foundation.

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Audit Participation

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Exit Conference

We discussed the findings and recommendations with the following representatives of Lake Superior College and the System Office at the exit conference held on April 9, 1997:

System Office:

Laura King	Vice Chancellor - Chief Financial Officer
Al Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Lake Superior College:

Rick Halvorson	Vice President of Finance and Administration
Wendy Summers	Accounting Officer

Chapter 1. Introduction

The Minnesota State Colleges and Universities System (MnSCU) established Lake Superior College by consolidating the Duluth Technical College and the Duluth Community College Center. The Duluth Technical College operated as part of the Duluth Independent School District No. 709 through June 30, 1995. The Duluth Community College Center, a branch of Arrowhead Community College, operated as part of the state's system of community colleges through June 30, 1995. On July 1, 1995, the two colleges consolidated and became part of the Minnesota State Colleges and Universities System (MnSCU), a state agency. MnSCU began operations on July 1, 1995 when it merged 8 state universities, 21 community colleges, and 34 technical colleges, including Duluth Technical College and Duluth Community College Center, into one common system. Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision I authorized the transfer of real property, personal property, improvements and attachments related to technical colleges to the state.

The mission of Lake Superior College is to provide teaching, learning, and access to high quality affordable educational opportunities for diverse populations in Duluth and the surrounding region. On April 4, 1995, Dr. Jay Noren, the Chancellor of the Higher Education Board, appointed Dr. Harold Erickson as president of the college effective July 1, 1995.

The college offers over 50 academic and occupational majors. The academic majors include two associate degrees and a Minnesota Transfer Curriculum consisting of 60 credits for transfer to other colleges. The occupational programs include four divisions-business, health, industrial, and special services for business and industry. During the fall of 1996, Lake Superior College had approximately 2,800 students enrolled in credit classes. Enrollment has been increasing by over six percent per quarter.

Most of the college's programs and services are located on the main campus. This campus completed a \$10.8 million expansion in September 1996. The college also operates two fire fighter training sites, a computer flex lab in downtown Duluth, and off-campus diesel and truck driving programs.

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Table 1-1 shows the financial activity during fiscal year 1996 recorded on the MnSCU accounting system as of March 1997.

Table 1-1
Fiscal Year 1996 Financial Activity

Revenue:	
State appropriation allocated from MnSCU	\$ 8,835,839
Tuition and fees	5,545,474
Federal grants	5,753,089
State grants	632,247
Bookstore sales	596,794
Private grants	21,400
Other	<u>680,758</u>
Total Revenue	<u>\$22,065,601</u>
Expenditures/Expenses:	
Payroll	\$11,329,429
Student financial aid	5,496,954
Purchased services	1,111,576
Supplies and materials	758,884
Equipment	724,234
Bookstore salaries and supplies	674,799
Other disbursements	<u>963,063</u>
Total Expenditures/Expenses	<u>\$21,058,939</u>

Note: As noted in Chapter 2, there were many errors in the accounting records for fiscal year 1996. The college and MnSCU have made many correcting entries as of March 1997. The impact of these errors has made it difficult to determine accurate ending balances for fiscal year 1996; therefore, we have not presented year end balances in this report.

Source: MnSCU Accounting System General Ledger Accounting Report as corrected on March 24, 1997.

We have developed several audit findings and recommendations. In Chapter 2 we discuss our findings regarding the financial management of Lake Superior College. In Chapter 3 we discuss the findings regarding tuition and fees. Chapter 4 discusses the findings related to payroll. Chapter 5 discusses the findings related to the purchase of supplies, services and equipment. Chapter 6 discusses the findings related to the operation of the bookstore. Chapter 7 discusses the findings related to student financial aid. Finally, Chapter 8 discusses the findings related to other federal grants and private gifts.

We also reviewed the status of recommendations made to Lake Superior College that were reported in audit report 96-35 (Transition of Technical Colleges into State Government). The unresolved issues are reported as prior findings.

Chapter 2. Financial Management

Chapter Conclusions

Lake Superior College did not design and implement adequate internal controls to provide reasonable assurance that it properly administered its financial activities. The college's accounting officer has numerous routine accounting duties making it difficult to complete key financial management responsibilities.

The college did not record accurate or complete information on the MnSCU accounting system for fiscal year 1996 and for the first six months of fiscal year 1997. The college corrected MnSCU accounting for fiscal year 1996 on March 24, 1997. However, there are still problems for 1997. The college is not reconciling certain of its major financial activities to local bank statements or to its business systems. The college did not transfer cash in the local bank accounts to the State Treasury timely. In addition, the local bank accounts are not properly collateralized. Finally, the college has not properly established change funds.

The MnSCU merger and new business systems compounded the difficulties faced by the colleges and the system as a whole. In August 1996, we issued an audit report (96-35) on the transition of technical colleges into state government. Chapter 2 of that report indicated that MnSCU had not fully implemented its business systems to ensure the integrity of its transactions and to provide complete financial information. MnSCU management decided to develop centralized business systems to process financial transactions for its campuses. MnSCU developed uniform computerized systems for the accounting, payroll, and procurement functions. These new MnSCU systems had to interface with the new Department of Finance accounting and payroll systems called Minnesota Accounting and Procurement System (MAPS) and State Employee Management System (SEMA4). Report 96-35 discussed that MnSCU did not have complete and reliable financial information. In addition, MnSCU's business systems did not properly interface with the Department of Finance's systems.

The statewide accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. Campuses use the MnSCU accounting system to initiate transactions that involve appropriated funds. The MnSCU accounting system feeds these transactions to MAPS through a system interface. MAPS generates State Treasury checks for state appropriated expenses. Campuses also administer funds in local bank accounts separate from the State Treasury. MnSCU requires the recording of local activities on MnSCU accounting records. However, as of March 24, 1997, the system office still has not completed the interface from MnSCU accounting to MAPS for local activities.

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The merger required the training of many employees at both the campus level and the system office. Many of the new employees at the technical colleges were not familiar with state regulations or with the new MnSCU or state accounting systems. Proper training of staff in these business systems is critical to ensure the reliability and proper interpretation of financial information. The MnSCU system office did not hold reconciliation workshops until April and August 1996. The late dates hampered timely reconciliations by the colleges.

In addition, Lake Superior College is a consolidated college. The technical college, formally associated with the Duluth Independent School District 709, merged with the Duluth Community College Center. This consolidation presented additional challenges. The college had to develop new operating policies and procedures. Further complicating the merger was a large construction project at the college to house classrooms and other facilities previously held at other locations in Duluth.

Audit Objectives and Methodology

The primary objectives of our review were to answer the following questions:

- Did the institution design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the institution design and implement internal controls to provide reasonable assurance that monies in the local bank accounts were adequately safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?
- Did the institution design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?

To meet these objectives, we made inquiries to gain an understanding of the accounting for revenues and expenditures/expenses. We reviewed the recording and reconciliation procedures between accounting systems. We also examined supporting documentation including MnSCU and MAPS accounting system reports. Finally, we reviewed financial management procedures for compliance with state and federal regulations.

Conclusions

Lake Superior College did not design and implement adequate internal controls to provide reasonable assurance that it properly administered its financial activities. Lake Superior College has not taken the steps necessary to ensure that all financial activity is recorded on MnSCU accounting timely. The college did not record accurate financial information on MnSCU accounting for fiscal year 1996. As of March 24, 1997, it has made many correcting entries to the fiscal year 1996 accounting records. Problems still exist for fiscal year 1997 data on MnSCU accounting. Finding 1 discusses numerous responsibilities assigned to the accounting officer which contributed to problems in the accounting and recording of financial activity. The college

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did not record local financial activity such as student financial aid and bookstore operations on MnSCU accounting as discussed in Finding 2. The college did not transfer cash from the local accounts to the State Treasury timely. This issue is discussed in Chapter 3, finding 8.

The college has not completed a reconciliation of financial activities recorded on the MnSCU and MAPS accounting systems since June 30, 1996. In addition, the college does not reconcile bank accounts timely. The college reconciled the two major bank accounts one to six months after the close of the month. This did not allow for the timely detection of errors or irregularities, as discussed in Finding 3. In addition, as discussed in Finding 4, the college did not obtain collateral for its local bank accounts. Finally, the college did not properly establish change funds as discussed in Finding 5.

1. The accounting officer has a heavy burden of responsibilities.

The college's accounting officer has numerous routine accounting duties, making it difficult to complete key financial management functions. The business office has one accounting officer to oversee the accounting and recording of financial activities. The accounting officer, as shown in Table 2-1, has a large number of responsibilities, including much of the routine business functions. Performing these routine functions does not permit the accounting officer to accomplish the reconciliations and other key financial management responsibilities. Since July 1996 the accounting officer has earned approximately \$6,000 in overtime pay. Even with the additional time, the accounting officer has not been able to complete the additional oversight functions. Findings 2 to 4 describe problems with the accounting and recording of financial activities.

Lake Superior College should evaluate the duties and responsibilities of staff in the business office to ensure the completion of critical oversight functions such as the timely reconciliations of the financial activities. The college should consider reassigning accounting duties within the business office or determine if there is a need for additional staffing. The college needs to ensure that controls are adequate in the business office.

Recommendation

- *Lake Superior College should evaluate the duties and responsibilities of staff in the business office to ensure completion of critical financial management functions.*

Table 2-1
Business Office Responsibilities

<u>Position</u>	<u>Full or Part Time</u>	<u>Responsibilities</u>
Account Clerk	Part Time (24 hours per week)	Tuition Receipts, Cashier, Financial Aid Disbursements, Reciprocity Reporting.
Account Clerk	Full Time	Tuition Receipts, Cashier, Accounts Receivable, Billing, Financial Aid Disbursements.
Account Clerk Senior	Full Time	Tuition Receipts, Bank Deposits, Accounts Receivable, Collections, Financial Aid Disbursements.
Account Clerk Senior	Full Time	Payroll.
Account Clerk Senior	Full Time	Accounts Payable.
Account Clerk Senior	Full Time	Purchasing.
Accounting Officer	Full Time	Tuition Receipts, Cashier, Financial Aid Disbursements, Records Bank Deposits into MnSCU, Bank Reconciliations, Federal Financial Aid Cash Requests and Reporting, Refund/Repayment Worksheets, Accounts Payable-Local Accounts, Financial Aid Reconciliations to MnSCU, Maintain Federal Grants and Student Support Services, Maintain General Ledger and Cost Center Accounts, Maintain CIS Accounts, Set up Business Accounts, Fees, Payment Codes, Establish Business Office Policies and Procedures, Supervise Four Business Office Personnel, Reconciliation of MAPS to MnSCU, Year End Reporting.

Note: The Business Office employs six to seven workstudy students during the year.

Source: Business Office Personnel Listing-Lake Superior College

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2. PRIOR AUDIT FINDING NOT RESOLVED: The college did not record its total financial activity on its business systems.

The college did not properly record its financial activities in MnSCU accounting for fiscal year 1996 or for the period July 1, 1996, through December 31, 1996. We also noted this issue in Audit Report 96-35 completed in August 1996. The college corrected the fiscal year 1996 data on March 24, 1997. However, the college did not correct the 1997 financial information on MnSCU accounting. Examples of financial activities that were not properly recorded for fiscal years 1996 and 1997 are shown in Table 2-2.

Table 2-2
Fiscal Years 1996 and 1997 (July 1, 1996 through December 31, 1996)
Financial Activities That Were Not Properly Recorded On MnSCU Accounting

<u>Financial Activity</u>	<u>Recording Issue</u>
<u>Year Ended June 30, 1996 - (Note 1)</u>	
Pell Student Financial Aid	The college recorded negative expenditures of \$293,141 for fiscal year 1996. Actual expenditures certified to the federal grantor agency were \$1,527,974.
State Appropriations	The college recorded state appropriations totaling \$9,421,829 for fiscal year 1996. The correct amount allocated by MnSCU totaled \$8,835,839.
<u>Six Months Ended December 31, 1996--Fiscal Year 1997</u>	
Federal Student Financial Aid	The college did not record federal student financial aid for fiscal year 1997 until March 1997. The college recorded over \$1.5 million in fiscal year 1996.
State Student Financial Aid	The college did not record state student financial aid for fiscal year 1997. Fiscal year 1996 revenue totaled \$411,000.
Cafeteria and Bookstore Activity	The college recorded revenues and expenses including salaries for fiscal year 1997 in the wrong account.
State Grants	The college did not record Non-AFDC Childcare and State Workstudy revenues and expenditures.

Note 1: The recording errors in fiscal year 1996 have been corrected for presentation in Table 1-1.

Source: Fiscal Years 1996 and 1997 MnSCU Accounting System.

The business office staff are not recording financial activity on MnSCU accounting timely. We worked with college and system office staff to correct the fiscal year 1996 activity on MnSCU accounting. The college made several corrections to MnSCU accounting for fiscal year 1996 on March 24, 1997. However, the 1997 errors were not corrected. The business office should

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record financial activity timely to ensure the integrity of the accounting records. Current accounting records are also necessary to evaluate the financial status of the college.

Recommendation

- *Lake Superior College should record all financial activity timely to ensure the accuracy of the accounting records. The college should correct the financial activity in MnSCU accounting for fiscal year 1997.*

3. PRIOR AUDIT FINDING NOT RESOLVED: Lake Superior College staff are not verifying the accuracy of accounting records timely.

The college did not reconcile its financial activities timely. The college has not reconciled the MnSCU and MAPS accounting systems on a timely basis since June 30, 1996. This reconciliation is necessary to detect transactions that are not recorded consistently on the two systems. The correct recording of financial activity is essential for financial reporting purposes.

The college did not reconcile the tuition depository and student financial aid bank accounts timely for the six months ending December 31, 1996. A critical management control is the reconciliation of the accounting records to the bank account balances to ensure the records are accurate. The college should reconcile the bank accounts timely to ensure the proper transfer of cash to the State Treasurer and to ensure the accuracy of the financial transactions.

The college did not reconcile tuition and fees to CIS (Collegiate Information System). In addition, the college did not reconcile tuition and fees recorded on CIS to the amount recorded on MnSCU accounting for the six months ending December 31, 1996. CIS is the computerized student information system that includes the accounts receivable records for students. The college manually records tuition and fees on MnSCU accounting. There is an unreconciled difference of \$68,000 for fiscal year 1997 between CIS and MnSCU accounting as of February 26, 1997. The reconciliation control is necessary to properly record and safeguard tuition and fees.

Recommendation

- *Lake Superior College should complete the necessary reconciliations on a timely basis to ensure the accuracy of its accounting records.*

4. PRIOR AUDIT FINDING NOT RESOLVED: Lake Superior College did not obtain collateral for local bank accounts.

Lake Superior College did not obtain the legally required amount of collateral for its local bank accounts. Minn. Stat. Section 118A.03 requires state agencies to establish collateral equal to 110 percent of the amount on deposit at the close of the business day, less any insured portion. Lake Superior College maintained bank deposits exceeding \$100,000 for fiscal year 1996 and the six months ended December 31, 1996. For instance, the college maintained a balance of over \$1.2

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million in the federal financial aid bank account in December 1996. The college needs to determine the future maximum uninsured balance and establish the necessary collateral. The colleges' establishment of adequate collateral reduces the risk associated with the loss of state funds.

Recommendation

- *Lake Superior College should comply with the statutory requirement and maintain collateral sufficient for the cash balance in the bank accounts.*

5. Lake Superior College has not properly established change funds.

The college has not properly established change funds for the cafeteria, bookstore, business office, and the dental hygiene office. These locations need to provide change to customers as part of the daily operations. The college has permitted these locations to establish change funds by withholding some receipts. There is no statutory authority for the college to withhold receipts. Minn. Stat. Section 15.191 authorizes the Commissioner of Finance to establish imprest cash funds for state agencies. The Department of Finance has developed a procedure (No. 0608-01) authorizing the establishment of imprest cash funds for change. Finance has further approved an amount of \$500 from imprest cash fund for a change fund. Lake Superior College should use this procedure for establishing change funds.

The college has also not established formal change fund balances at the various locations. For instance, the dental hygiene section alters its change fund independently of the business office, depending on the amount of expected business in the next week. Without formal balances authorized by the accounting officer, the college will not be able to reconcile the amount on hand to the approved amount.

Recommendations

- *Lake Superior College should establish change funds in accordance with Department of Finance procedures.*
- *The college should determine the amount needed for each location. The individual locations should maintain these amounts unless proper procedures for changing the amount are followed. The college should periodically spot-check all change fund locations.*

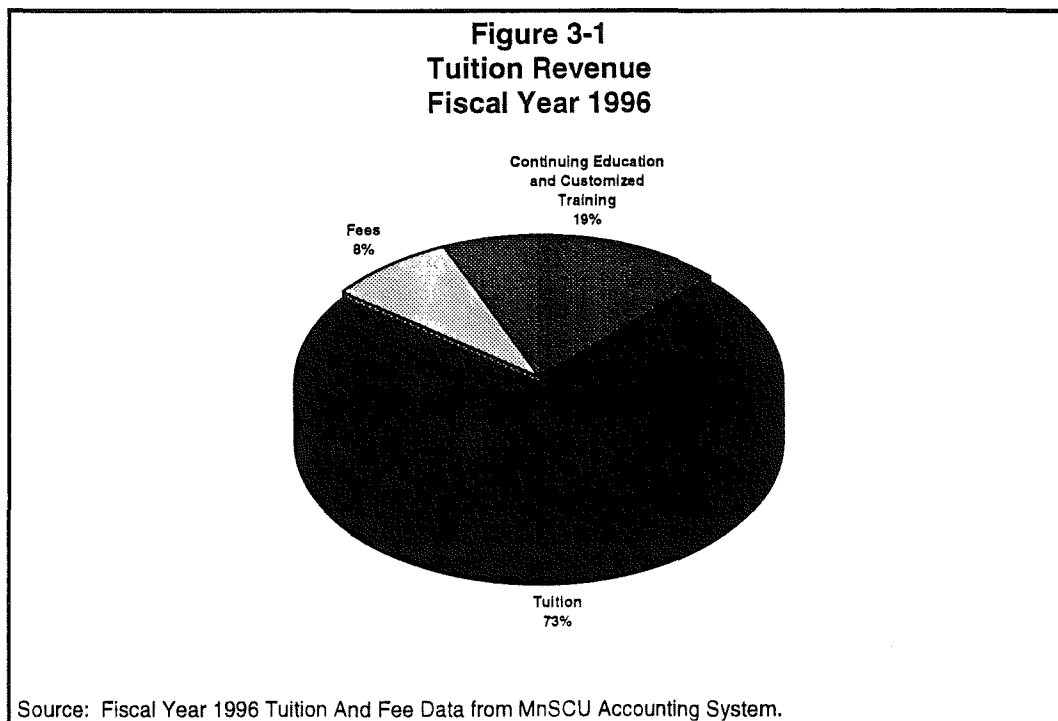
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Chapter 3. Tuition and Fees

Chapter Conclusions

We found several problems with tuition and fees collected by Lake Superior College. The college did not deposit tuition and fees timely. The college also did not record tuition and fees timely in MnSCU and MAPS from July 1, 1996, through December 31, 1996. We also found that the college has a high accounts receivable balance and is not properly pursuing collection of these accounts.

Lake Superior College collected tuition and fees each quarter from students enrolled in campus programs. For fiscal year 1996, the resident tuition rate was \$40 per credit plus miscellaneous fees. The college also collected tuition for non-credit continuing education and customized training classes. Customized training classes are tailored to the needs of a specific business that wants to train its employees. Tuition, fees, and customized and continuing education revenue totaled \$5.4 million in fiscal year 1996. Figure 3-1 shows the breakdown of tuition and fee revenue into its various components.



The college collects all tuition except for customized training at the business office. The college requires the student to show a fee statement from the registration office. Lake Superior College

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registers, bills, and collects for all classes through the Collegiate Information Systems (CIS). The business office verifies that amount the students owe and any financial aid on CIS. An employee independent of the collection process reconciles tuition revenue to the cash register tape. The business office is also responsible for entering tuition and fees collected on the MnSCU accounting system.

Audit Objectives and Methodology

We focused our review of tuition and fee revenue on the following objective:

- Did the college design and implement internal controls to provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorizations?

To meet this objective, we reviewed the controls over the billing, collecting, and recording of tuition and fee revenue. We also tested transactions to determine the timeliness of deposits and the recording of revenue on the MnSCU and MAPS accounting systems.

Conclusions

We found that the college did not have adequate controls to ensure the accurate recording of tuition and fees on the MnSCU and MAPS accounting systems. We also found that the college had a high accounts receivable balance and is not actively pursuing the collection of overdue accounts. This issue is discussed in Finding 6.

The college did not transfer cash from the local accounts to the State Treasury timely. In addition, the college did not promptly deposit tuition revenue and record the amounts in the MnSCU and MAPS accounting systems. In addition, we found that the college did not deposit and record fees collected for continuing education and customized training on a timely basis. These issues are discussed in Finding 7.

Current Findings and Recommendations

6. PRIOR AUDIT FINDING NOT RESOLVED: Lake Superior College had a high accounts receivable balance.

Lake Superior College had a high accounts receivable balance in January 1997. The college is in the process of consolidating the community college and technical college databases. The total of these systems shows receivables of \$792,000, of which \$461,000 was over 90 days old. However, the college has not confirmed the accuracy of the older receivables. Thus, it has not referred some valid overdue accounts to collection agencies.

The accounts receivable balance is on three separate databases. The databases are MSIS (Minnesota Student Information System), CCIS (Community College Information System), and CIS (Collegiate Information System). The same student may be on more than one database. The

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student accounts date back to 1989. Since some of the accounts overlap, it is possible that some of the older accounts are recorded in duplicate.

Some accounts receivable are due to deferments. The Lake Superior College deferment policy allows students to attend class by paying one-third of the total tuition due. Students then pay the balance before they can register for the next quarter. However, students can get this requirement waived by seeking the proper approvals. The college should analyze the accounts receivable balance to determine if the deferment policy is contributing to the high balance.

Lake Superior College is not actively pursuing collection of some overdue accounts. About 500 accounts are currently being collected through three collection agencies. The college is also using revenue recapture when it is available. The employee responsible for collecting accounts receivable has other daily responsibilities that make the collection of accounts receivable a slow process.

Recommendations

- *Lake Superior College should develop an accurate accounts receivable system from CCIS, CIS, and MSIS. The college should age the accounts receivable and pursue collection of overdue amounts.*
- *The college should review its policy regarding student deferments. The policy should address the eligibility requirements for deferments.*

7. PRIOR FINDING NOT RESOLVED: Lake Superior College did not properly record some financial activities on MnSCU accounting and did not transfer certain monies to the State Treasury timely.

The college did not properly record and deposit tuition earned from federal student financial aid timely. During our fieldwork for audit 96-35 we noted that the college did not transfer money during fiscal year 1996 to the State Treasury on a timely basis. This situation has not changed in fiscal year 1997. The most notable example is student financial aid. The college operates a local checking account for federal student financial aid. During the month of December 1996 the balance in the account increased from \$505,130 to \$1,171,104. The college did not record the December 1996 tuition and fees from federal student financial aid on the MnSCU accounting system as of February 1997. Minn. Stat. Section 16A. 275 requires state agencies to deposit receipts in excess of \$250 daily. The college should deposit tuition revenue into the State Treasury within 24 hours. The State Treasurer subsequently sweeps this money into the main state bank account.

The college did not transfer the Continuing Education and Customized Training Division tuition revenue to the State Treasury on a timely basis. During fiscal year 1996, the division collected \$683,000 in revenue. The division collects tuition, registers the students, and submits the revenue to the business office. The business office did not deposit most of the collections until it recorded the tuition on CIS. This delayed the individual deposits from one to six weeks. For example, tuition payments on January 2, 1997, totaled about \$1,500. The college did not record and deposit this revenue until February 15, 1997. The business office should deposit these receipts more timely.

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The college also does not deposit dental fees on a timely basis. The Dental Hygiene Division collected fees for dental services provided to outside clients. The division collects fees, stores the fees in a safe, and makes a deposit weekly. The division told us that these fees amount to \$600 or more each week. The college should deposit dental fees that total the \$250 limit established by state law.

The college did not properly account for the financial activities of state grants on its business systems and did not transfer the funds to the State Treasury. The college recorded financial activities in the local bank accounts, but the college did not record transactions for fiscal year 1997 on MnSCU or MAPS. In addition, because the college did not record revenue on MnSCU, the college did not transfer money to the state depository account to be swept by the State Treasurer. Table 3-3 shows the financial activity of the state grants for fiscal year 1996 that was recorded on MnSCU accounting. Since the college did not record 1997 data, we do not have proper information on its state grants for this period.

Table 3-3
Summary of State Grants
Fiscal Year 1996

<u>Program</u>	<u>Expenditures</u>
State Financial Aid	\$412,639
State Workstudy	\$82,006
Non-AFDC Childcare	\$53,535
Indian Scholarships	\$36,933

Source: Documentation Provided by Lake Superior College.

In fiscal year 1997 we noted a number of problems with the recording of the grant programs. Financial aid, state workstudy, and Indian scholarships were not recorded on MnSCU accounting. Money from state financial aid was not transferred to the State Treasury. In addition, we noted several classification errors in the recording of state grants. For Workstudy and Non-AFDC Childcare, expenditures differed considerably from revenues. The difference was due to the incorrect posting of the transactions. For example, the college recorded student payroll of about \$33,000 as a state grant. However, this activity was not a state grant.

Recommendations

- *Lake Superior College should promptly record and deposit tuition and fee revenue in the State Treasury.*
- *Lake Superior College should record and deposit tuition and fees from continuing education and customized training, state grants, and dental hygiene services timely.*
- *The college should correct classification errors in the accounting records. The college should review the accounting records periodically and make the necessary corrections.*

Chapter 4. Payroll

Chapter Conclusions

Lake Superior College had controls that, except for some duplicate payments, provided for the accurate recording of payroll expenditures. The college also complied with applicable legal provisions for the items tested.

Several employees under multiple appointments inadvertently received duplicate payments. In addition, the college did not process position request forms timely.

Lake Superior College employed approximately 300 staff, consisting of 221 full-time and part-time faculty and 79 nonfaculty personnel. Payroll expenditures comprised approximately 54 percent of total college expenditures, totaling \$11,329,429 during fiscal year 1996. Employees at Lake Superior College are members of the following compensation plans: AFSCME (American Federation State County Municipal Employees), MCCFA (Minnesota Community College Faculty), Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Excluded Administrators Plan, and United Technical College Educators Plan (UTCE). The related parties still have not signed the UTCE Plan. Faculty are operating under the previous contracts.

During fiscal year 1996, the college used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. PPS contained pay rate information and calculated the amount that an employee was paid. PPS also handled leave accruals for classified and unclassified employees. The college reconciles the employee timesheets to the leave report each pay period. Faculty leave accruals are maintained manually as the biweekly leave report cannot accommodate this type of leave accrual. The college converted to the state's new SEMA4 payroll system in October 1996.

Lake Superior College maintains separate human resource and payroll sections. The Human Resources Section input staff onto SCUPPS. The Payroll Section collected employee timesheets and submitted payroll information to the Minnesota State College and University System's (MnSCU) board office for input. The college began inputting its own payroll beginning in February 1997.

During the time period of our audit, we noted there were about 100 employees that did not receive payroll checks through the payroll system. In some instances, there were errors in employee appointment dates, resulting in the employee dropping off of the payroll system entirely. In other cases, the college had not recorded these employees on the human resource personnel system on a timely basis. Lake Superior provided payroll advances totaling \$81,000 to these employees. Once the employees began receiving payroll checks through the system,

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they were supposed to reimburse the fund. Seventeen advances totaling \$9,578 were still outstanding as of February 1997. Twelve of these are being recovered through biweekly payroll deduction. The remaining five advances total \$1,735. These individuals are no longer current employees. The college is pursuing alternative methods of recovering these advances.

Audit Objectives and Methodology

The primary objective of our review was to answer the following question:

- Did Lake Superior design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and were in compliance with applicable legal provisions and management's authorization?

To answer these questions, we made inquiries of college staff to gain an understanding of the payroll process. We tested a sample of payroll transactions to ensure that there was proper documentation for those transactions. We also reviewed outstanding payroll advances from the imprest cash fund to determine if the school had a systematic method for recovering those advances. We also reviewed large pay increases given to administrative staff to determine if the amounts were reasonable.

Conclusions

We found that, except for some duplicate payments, Lake Superior College accurately paid, recorded, and retained documentation for payroll expenditures. The issue of duplicate payments is discussed in Finding 8. We also noted that the college did not process some employee position request forms timely as discussed in Finding 9.

8. Lake Superior erroneously processed certain lump sum payments, resulting in some duplicate payroll payments.

The college incorrectly paid employees for services performed on a lump sum appointment. Lake Superior faculty can legitimately have multiple appointments when they perform other activities in addition to their regular duties. These faculty members are either paid on an hourly basis or by lump sum. In cases where the services performed are of a short duration, the college can pay a lump sum amount. Human resources initiates the lump sum payments through the payment disbursement screen on SCUPPS, which interfaces with SEMA4, generating a check to that employee. The college's Payroll Section processes the payroll for the hourly timesheets. The college did not have controls to prevent duplicate payments to employees by both payroll methods.

We found two faculty members that the college paid both a lump sum and the hours reported on the timesheets in the same pay period, resulting in overpayments to them of \$1,523. Since the payments for lump sums are initiated by the Human Resources Section, the Payroll Section was not aware that an employee had received a lump sum until after it had been paid. These errors remained undetected until faculty members returned the duplicate payments. There is a report

Lake Superior College

that the college could review prior to paying lump sums. The Payroll Section could then verify whether the lump sum payments were appropriate.

Recommendation

- *Lake Superior College should review the propriety of lump sum payments prior to issuance.*

9. Lake Superior College did not process position request forms timely.

Lake Superior College did not record employees' position information into the payroll/personnel system timely. The college uses position request forms as the mechanism to add employees onto SCUPPS. The position request form ensures that the college adds only authorized employees to Lake Superior's human resources system. The Human Resources Section has to obtain internal approvals before the employee can be added to the system. In order for employees to be paid timely the Human Resource Section should obtain approvals before employees start their assigned duties. However, in some cases, the college did not input position request forms timely. These delays resulted in late payments to employees which caused the college to issue advances from the imprest cash fund.

Recommendation

- *Lake Superior should institute an approval system which will ensure that fully executed position request forms are entered on a timely basis. The college should ensure that employees are paid on a prompt basis.*

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Chapter 5. Supplies, Services, and Equipment

Chapter Conclusions

Lake Superior College designed and implemented internal controls to provide reasonable assurance that the expenditures for supplies, services, and equipment were accurately reported in MnSCU and MAPS. In addition, the college complied with finance-related legal provisions for the items tested. However, we did note that the college did not have equipment inventory records.

Lake Superior College purchased \$724,234 in equipment, and \$758,884 in supplies and materials (excluding bookstore supplies) in fiscal year 1996. The college also incurred \$1.1 million in purchased services expenditures. Minnesota State Colleges and Universities (MnSCU) issued system procedures that the college followed when making purchases.

To make a purchase of any type, staff have to complete a requisition for purchase form. The appropriate college dean has to approve the request. The dean forwards the requisition to the college's purchasing agent. If the order exceeds \$1,500, the Vice-President of Finance also has to approve the purchase. The purchasing agent prepares a purchase order and places the order with the vendor. The vendor delivers the goods to the loading dock. An employee checks the order to verify the accuracy of the shipment and distributes the items to the employee who placed the order. When the invoice comes to the business office, the accounts payable clerk confirms that the college received the items and that it is appropriate to pay the invoice. Without this verification, the accounts payable clerk will not pay the invoice. The accounts payable clerk processes the payment on the MnSCU Accounting System.

Audit Objectives and Methodology

The primary objective of our review was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that supply and equipment expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?

To answer this question, we made inquiries of college staff to gain an understanding of the purchasing process. We also tested sample purchases and purchased services to ensure that the college had adequate supporting documentation, paid the correct amount, properly recorded transactions in the MnSCU system, and complied with MnSCU purchasing policies.

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Conclusions

Lake Superior College complied with MnSCU purchasing policies. The college properly approved, documented, paid and recorded supplies and materials, equipment, and purchased services expenditures in MnSCU. However, we found that the college has not taken an equipment inventory as discussed in Finding 10.

10. Lake Superior College did not have an equipment inventory.

Lake Superior College has not taken a complete physical inventory of items located at the colleges. MnSCU System Procedure 5.5.2, Part 11, Fixed Assets, requires that the college develop a procedure for recording fixed assets over \$2,000. MnSCU gave the institution discretion to record items under \$2,000. The MnSCU System Office is currently developing a new automated inventory system. Lake Superior plans to use this inventory system to record its assets.

In addition, Lake Superior has not tagged all items as state property, nor has it recorded items in excess of \$2,000 on an inventory listing. The college still has some property with school district tags. In order to develop an inventory listing, the college should do a complete physical inventory. The colleges inventory procedures should also address sensitive items. Sensitive items are those items with a value of less than \$2,000 but susceptible to theft or loss. Without an adequate system of accounting for fixed assets, theft or misuse of those items could go undetected.

Recommendation

- *Lake Superior College should take a complete inventory of all items, tagging items as state property and recording items over \$2,000 and other sensitive items.*

Chapter 6. Bookstore Operations

Chapter Conclusions

Lake Superior College did not design and implement internal controls to provide reasonable assurance that bookstore financial activities were properly recorded in MnSCU and MAPS. We noted two significant weaknesses in controls over bookstore receipts. The business office did not investigate consistent bookstore receipt shortages. We also found that the bookstore managers did not independently count the daily receipts before they gave the receipts to the business office. Finally, we determined that the college did not prepare complete and accurate financial statements to monitor the status of bookstore financial activities.

The Lake Superior College bookstore sells school materials and personal supplies. These products include mainly textbooks, supplies, reading books, gifts, candy, greeting cards, clothing, backpacks, and stamps.

The bookstore processes sales through the cash register. Students have the option of paying by cash, checks, credit cards, and charges to financial aid. At the end of the day, the bookstore manager closes out the cash register and locks the receipts in the safe. The following day the bookstore manager removes the change fund and takes the remaining receipts to the business office. The business office reconciles the sales recorded on the register tape to the daily receipts. The business office then records and deposits the receipts. The following table illustrates bookstore revenues and expenses for fiscal year 1996.

Table 6-1
Summary of Bookstore Revenues and Expenses
Fiscal Year 1996

Revenue:	
Sale of books	\$560,257
Sale of school supplies	20,041
Sale of apparel	15,131
Other revenue	<u>1,365</u>
Total Revenue	<u>\$596,794</u>
Expenses:	
Purchase of books	\$534,248
Bookstore salaries	63,832
Purchase of school supplies	27,517
Other purchases and operating expenses	<u>49,203</u>
Total Expenses	<u>\$674,800</u>

Note: This financial information is incomplete and does not permit net income to be measured. Missing information includes cost of goods sold, rent, utilities, and depreciation.

Source: MnSCU Trial Balance Report as of March 22, 1997.

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Incomplete and inaccurate information on MnSCU accounting did not permit the calculation of a net income (loss). The bookstore was not charged for rent, utilities, or depreciation. In addition, the cost of the inventory represented in the sales amount in Table 6-1 was not determined.

Audit Objective and Methodology

The primary objective of our audit of the bookstore was as follows:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenues and expenses were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorizations?

To meet this objective, we interviewed bookstore and business office employees. We reviewed the controls over the bookstore revenue and expense processes. We sampled bookstore financial transactions.

Conclusions

Lake Superior College did not design and implement internal controls to provide reasonable assurance that bookstore financial activities were properly recorded in MnSCU and MAPS. We found that the college had not recorded transactions in the MnSCU accounting system on a timely basis. See Chapter 2, Finding 1, for a discussion related to the updating of the MnSCU accounting system. We also noted two significant weaknesses in controls over bookstore receipts as discussed in Finding 11. Finally, the college does not monitor the status of bookstore financial activities as discussed in Finding 12.

Current Findings and Recommendations

11. Lake Superior College had inadequate internal controls over bookstore receipts.

The college did not investigate consistent receipt shortages from the daily bookstore sales activities. The bookstore managers and the business office did not pursue the reasons for variances between sales recorded in the cash registers and the receipts deposited. The business office was aware of the shortages when it reconciled the receipts to the cash register tape. However, the business office did not take any action regarding the shortages. Table 6-2 shows examples of shortages occurring during fiscal year 1997.

Table 6-2
Bookstore Receipt Shortages in Fiscal Year 1997

<u>Date</u>	<u>Total Sales</u>	<u>Total Receipt Shortage</u>	<u>Percentage of Sales</u>
8/30/96	\$33,449	\$120	0.36%
9/5/96	20,908	203	0.97%
9/23/96	764	90	11.78%
11/19/96	10,120	108	1.07%
10/7/96	456	47	10.31%
10/22/96	454	61	13.44%

Source: Lake Superior College Bookstore Receipts Reconciliation.

The bookstore managers did not count receipts before submitting them to the business office. Counting receipts would provide a method for verifying the amount of receipts transferred by the bookstore to the business office. To ensure the accuracy of the cash receipts transferred to the business office, the bookstore should count receipts.

Recommendations

- *Lake Superior College should investigate consistent cash shortages or overages to determine the reasons for the variances.*
- *The bookstore managers should count the receipts before they transfer receipts to the business office.*

12. Lake Superior College does not monitor the status of bookstore financial activities.

Lake Superior College did not properly record its revenue and expenses on MnSCU accounting to produce an accurate income statement for the bookstore to monitor its financial activities. As shown in Table 6-1, expenses are greater than revenue for fiscal year 1996. This schedule is incomplete, however, because it does not measure costs of goods sold, rent, utilities, or depreciation. The bookstore is an auxiliary enterprise and should account for operations in a manner similar to private business.

An accurate income statement would measure whether the bookstore was properly matching its expenses to its revenues. It would allow the college to determine if it needed to pursue cost savings. For example, we noted that the bookstore has two full-time employees and three student workers to assist in its daily operation. The two employees are the result of the consolidation of the technical college and community college staff. The bookstore may not generate sufficient revenues to support the salaries of two full-time employees.

A proper income statement can also help determine if the correct markup is being applied to the cost of the goods sold. If the markup is not sufficiently high, the bookstore will not recover its

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costs. If the markup is too high, the bookstore will overcharge the students. An income statement would assist in determining the correct amount of the markup.

Recommendation

- *Lake Superior College should properly record its revenue and expenses on MnSCU accounting to produce an accurate income statement for the bookstore. The college should determine if the markup is reasonable and review profits and fund balance.*

Chapter 7. Student Financial Aid

Chapter Conclusions

Lake Superior College had adequate internal controls as of December 31, 1996, to reasonably ensure compliance with federal student financial aid laws and regulations. Lake Superior College could, however, improve its internal control structure over federal student financial aid. The college needs to improve access controls over the SAFE financial aid computer system to prevent unauthorized or unnecessary access to the system. In addition, the college needs to improve cash management procedures over federal funds to prevent having excess or deficient cash balances in federal accounts. Finally, the college needs to maintain sufficient accounting records to support its monthly cash balances for each federal financial aid program.

We determined that Lake Superior College also had adequate controls to ensure compliance with the requirements of state and locally funded student financial aid. However, we did find that the college did not record financial activity for state financial aid on MnSCU accounting. The college also did not transfer money from the local accounts to the State Treasury.

Lake Superior College participates in several federal student financial aid programs administered by the Office of Post-secondary Education within the U.S. Department of Education. Those programs are shown in Table 7-1.

Table 7-1
Federal Student Financial Aid Activity
Fiscal Year Ended June 30, 1996

<u>CFDA Number</u>	<u>Major Programs</u>	<u>Totals</u>
84.032	Federal Family Education Loan (FFEL)	\$2,915,625
84.063	Federal Pell Grant	\$1,527,974
	<u>Non-major Programs</u>	
84.007	Federal Supplemental Opportunity Grant (SEOG)	\$ 66,958
84.033	Federal Work-Study (FWS) Program	\$ 32,385

Source: Fiscal year 1996 Minnesota Financial and Compliance Report on Federally Assisted Programs (anticipated release date June 1997).

The Federal Pell Grant and Federal Family Education Loan Programs are major federal programs for the State of Minnesota's Single Audit.

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Lake Superior College uses an automated financial aid system called SAFE. The system receives eligibility data on the electronic student aid reports from the federal processor and identifies students requiring verification and other concerns. System edits check several eligibility features including enrollment status and other federal requirements. The college applies financial aid against institutional costs and generates a check for the excess balance. The college receives Federal Family Loan (FFEL) checks from lenders and distributes them to students.

The Federal Pell Grant is generally considered the first source of assistance to the student. Since Pell Grant payments are not limited to the available funds at the college, all eligible students will receive aid payments. The maximum Pell Grant was \$2,340 for a student in the 1995-96 award year.

Under the Federal Family Education Loan Program, private lenders provide the loan principal and the federal government "guarantees" the loan. For Federal Stafford Loans, the federal government pays interest to the lender while the student is in school and during certain deferment periods. For unsubsidized Federal Stafford Loans, interest accrues from the date of origination and is the responsibility of the borrower.

The Federal Work-Study Program (FWS) and Federal Supplemental Educational Opportunity Grant (FSEOG) payments are additional sources of student federal financial aid. The federal share of both these programs may not exceed 75 percent of the total FWS wages and FSEOGs. The college must contribute a non-federal share of 25 percent.

Lake Superior College also processes student financial aid funded by the State of Minnesota. These programs complement the federal financial aid available to eligible students. The four types of state student financial aid includes funding for tuition, fees and books, employment of students, childcare, and assistance for students of Indian descent. Total state funding for fiscal year 1996 amounted to \$584,864.

Audit Objectives and Methodology

The primary objectives of our audit were as follows.

- Did the college design and implement internal controls to provide reasonable assurance that it is managing federal, state, and local student financial aid in compliance with applicable program requirements?
- Did the college adhere to federal regulations governing cash management and federal reports?

To address these objectives, we interviewed business office and student financial aid personnel at the college and reviewed applicable federal policies, procedures and guidelines. We reviewed and tested controls and transactions related to state funded and locally funded student financial aid. We evaluated and tested controls over compliance for student eligibility, awarding, and disbursing. We also tested the cash management practices and reviewed selected federal reports.

Lake Superior College

We audited the college's federal financial aid programs for fiscal year 1996 in conjunction with our annual single audit of the State of Minnesota's federal programs. This report is intended to be issued in June 1997.

Conclusions

The college had adequate controls as of December 31, 1996 to reasonably ensure compliance with federal student financial aid laws and regulations. Lake Superior College could, however, improve its internal control structure over federal student financial aid. The college needs to improve access controls over the SAFE financial aid computer system to prevent unauthorized or unnecessary access to the system. In addition, the college needs to improve cash management procedures over federal funds to prevent excess or deficient cash balances in federal accounts. Finally, the college needs to maintain sufficient accounting records to support its monthly cash balances for each federal financial aid program. We discuss these issues in Findings 13, 14, and 15.

13. Lake Superior College did not monitor access to its financial aid computer system.

Lake Superior College does not monitor access to its financial aid computer system. We noted five individuals who had access to SAFE that either no longer worked at the college or no longer performed financial aid functions. Each of the five individuals had the ability to update financial aid information. An individual with update capabilities could change data in SAFE, including scheduling awards and disbursements and verification and eligibility information for any student financial aid record.

Recommendation

- *Lake Superior College's financial aid office should establish a policy to eliminate SAFE access for those individuals who no longer require it.*
- *Lake Superior College's financial aid office should periodically review reports identifying individuals with SAFE access.*

14. Lake Superior College did not adequately manage its cash drawn from the federal government.

Lake Superior College did not consistently draw cash from the federal government. The college predominantly uses the advance method when drawing cash. Under the advance method, the college determines the amount of cash needed to meet its immediate needs. During the fall and winter quarters, Lake Superior College drew approximately \$16,000 more than its immediate needs. According to federal regulations, schools should not request more cash than is needed to make disbursements to students within three business days following the date the funds are received. In addition, the college drew some cash after incurring expenditures.

The college did not draw federal funds regularly for the Federal Work-Study Program and other aid disbursed periodically throughout each quarter. The college paid student workers bi-weekly,

Lake Superior College

however, the school did not request funds each pay period. Although the college disbursed a majority of financial aid, i.e., PELL and Stafford at the beginning of each quarter, the college disbursed some aid periodically. For example, during fall and winter quarters, the college performed three draw downs. One draw down at the beginning of each quarter and another between the two quarters. Each draw contained financial aid the college disbursed in prior weeks and months. Although federal regulations do not prohibit the college from drawing funds late, we found no reason for delaying the draws. The state lost interest earnings on those funds because the college did not request the federal reimbursement on a timely manner.

Recommendation

- *Lake Superior College should limit its requests for federal funds to immediate cash needs. In addition, the college should improve its cash forecasting procedures to ensure that sufficient funds are available to meet expected disbursements.*

15. Lake Superior College did not maintain sufficient accounting records to support its monthly cash balances for each financial aid program.

Lake Superior College did not maintain accounting records that summarized federal cash balances by program. For instance, the cash on hand reported on its federal report, for the period ending November 30, 1996, was \$13,503. The cash balance in Lake Superior College's financial aid bank account for the same period was \$391,754. The college commingles both federal and state funds in its financial aid bank account. The college is unable to distinguish, on a program basis, the cash balances in its bank account corresponding to the amounts reported on the federal report. According to the Blue Book, published by the U.S. Department of Education, federal regulations require colleges to remit any interest revenue earned over \$250 per year on federal funds. Lake Superior college is unable to determine the amount of interest revenue earned on federal funds in its financial aid bank account. Federal regulations require colleges to be able to track institutional awards, obligations, unobligated balances, assets, expenditures, cash disbursements, and income on an individual program basis. Without sufficient program information, the college cannot readily determine the need for additional cash or provide the necessary support for federal reports.

Recommendation

- *Lake Superior College should maintain complete accounting records to track federal financial aid at the individual program level.*

Chapter 8. Other Federal Grants and Private Gifts

Conclusion

Lake Superior College had controls to ensure that private gifts and federal grants were properly recorded and deposited timely. The college had controls to ensure that federal grants and gifts were used for their intended purpose. However, the college did not adopt uniform procedures for approval and acceptance of these gifts.

The college did not establish an effective relationship with its affiliated foundation.

Lake Superior College is the recipient of other federal grants. The college received federal grants totaling \$1,430,490 during fiscal year 1996. Below is table 8-1 which lists the federal grants for the audit period.

Table 8-1
Summary of Federal Programs
Fiscal Year 1996

<u>Grant</u>	<u>CFDA Number</u>	<u>Description</u>	<u>Amount</u>
Job Training Partnership Act (JTPA)	17.250	Provides funding for jobs and training to low-income individuals.	\$625,834
Federal Perkins Grant	84.048	The Federal Perkins Grant was used to fund programs such as Sex Equity, Single Parent, and Woman's Resource Center.	417,447
Student Support Services	84.042A	The grant money is used to pay for tutoring, supplemental instruction, counselors, and other activities.	176,500
Airport Rescue and Fire Fighting	84.106A	Money is used to purchase the facility and equipment.	192,715
Technical Preparation Program	84.243	Provides funding for books, supplies and equipment for technological programs.	<u>17,994</u>
Total			<u>\$1,430,490</u>

Note: JTPA includes \$560,931 that was erroneously recorded as private scholarships in MnSCU accounting.

Source: MnSCU Accounting System General Ledger Trial Balance as of March 31, 1997.

Lake Superior College

The five federal grants are processed in a similar manner. The college submits a grant application. When the grant is awarded, the college commences program activities. Each grant has a director responsible for all expenses associated with the grant. The director must sign the invoice to verify that the expenditure is valid according to the grant agreement. The college then submits a reimbursement request, and the grantor agency reimburses the college for its expenditures. The college monitors the reimbursement amounts to ensure that expenditures do not exceed the grant budget.

The college also received gifts and grants from private individuals and organizations totaling about \$21,000. Pursuant to Minn. Stat. Section 136F.80, the Board of Trustees of Minnesota State Colleges and Universities may apply for, receive, and accept any gift or grant that any person, firm, association, or government agency may make to the system office or college. The board office developed procedure 8.1 for the acceptance of gifts and grants. In addition, the college received small donations to the student senate and student organizations.

Audit Objectives and Methodology

Our objectives are as follows:

- Did the college design and implement internal controls to ensure that private gifts, grants, and federal programs were properly recorded and timely deposited?
- Did the college design and implement internal controls to provide a reasonable assurance that it is managing grants and gifts in compliance with certain grantor requirements?
- Did the college design and implement internal controls to provide reasonable assurance that it had an appropriate operating relationship with related organizations?

We held discussions with staff regarding the controls over the processing of the grant funds and the relationship with related organizations. We tested a sample of expenditures to determine if the internal controls would prevent or detect errors or irregularities. We also tested expenditures for compliance with program requirements.

Conclusion

Lake Superior College did design and implement internal controls to provide reasonable assurance that it is properly managing federal grants. The college also designed and implemented internal controls to ensure that it is managing private gifts in accordance with grantor requirements. However, the college has not established procedures for the review and approval of private gifts. This issue is discussed in Finding 16.

Lake Superior College has not established an effective relationship with its affiliated foundation. This issue is discussed in Finding 17.

Lake Superior College

16. The college did not have uniform procedures to approve gifts and grants.

The college did not have procedures in place to approve and accept gifts and grants. The college deans receive gifts without prior approval of the administration. Deans apply for gifts or grants without the signature of the president. MnSCU policy 8.1, Section 5 requires an internal procedure for a review and approval by the president. It also requires the approval of the president on proposals to any funding authority. The college received approximately \$25,000 in gifts during fiscal year 1996. The college did not obtain prior approval of the president before accepting these grant funds.

The college should review gifts and grants prior to an acceptance. The review should take into consideration possible risks associated with the gift. These risks include potential liability, conflict of interest, cost of maintaining the gift property, costs associated with hazardous waste, and any taxes or special assessments. An internal procedure for the review of the gift before acceptance would reduce these risks to a minimum.

Recommendation

- *Lake Superior College should comply with MnSCU policy and obtain prior approval before accepting gifts. The approval process should take into account any possible risks associated with the gift or grants.*

17. The college did not have an effective relationship with its affiliated foundation.

Lake Superior College did not negotiate and establish a written agreement with its affiliated foundation to define the rights and responsibilities of the respective parties. The foundation has been inactive for several years, and the college has not received any benefit from it. The college provides administrative functions to the foundation mainly for accounting duties. The college should reevaluate its responsibilities in relation to the future of the foundation.

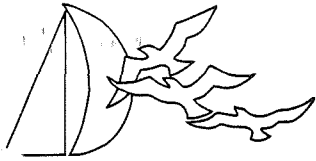
Lake Superior College Foundation, Inc. is a private nonprofit organization that was established exclusively to raise funds for the college. It is an autonomous entity and must be subject to management oversight that is separate and distinct from the college. Nonetheless, the college has an interest in the foundation's activities. In essence, the college has substantially delegated its fund raising capabilities to this nonprofit organization. Foundation resources may only be spent for the benefit of the college. The college can justify providing administrative support to the foundation if it receives sufficient benefits in return.

The foundation's cash balance as of December 31, 1996, was \$42,794. Its only receipts during the audit period were interest earnings and one donation for \$100. The foundation made no expenditures during this period.

Recommendations

- *Lake Superior College should work with the members of its affiliated foundation to determine the future of the foundation.*
- *The college should develop a written agreement to define the duties and responsibilities of the college and the foundation.*

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Lake Superior College

A Community & Technical
College at Duluth

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(218) 733-7600

April 24, 1997

Mr. James R. Nobles
Legislative Auditor
Office of Legislative Auditors
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

In connection with the Legislative Audit of Lake Superior College, the Legislative Auditors requested we send you our written response to their findings. The list below is our response:

Finding #1

Lake Superior will evaluate the duties and responsibilities of staff in the Business Office to ensure completion of critical financial management functions.

Persons Responsible: Rick Halvorson and Wendy Summers
Date Projected for Completion: June 30, 1997

Finding #2

Lake Superior College has recorded all of its financial activity into MnSCU Accounting for Fiscal Year 1997.

Persons Responsible: Wendy Summers
Date Projected for Completion: Completed

Finding #3

Lake Superior College will complete necessary reconciliations on a timely basis to ensure the accuracy of its accounting records.

Persons Responsible: Wendy Summers
Date Projected for Completion: May 15, 1997

Finding #4

Lake Superior College will continue to monitor and obtain collateral sufficient for the cash balance in the bank accounts to comply with statutory requirements.

Persons Responsible: Rick Halvorson
Date Projected for Completion: Completed

Finding #5

Lake Superior College will establish change funds in accordance with Department of Finance procedures.

Lake Superior College will determine the amount needed for each location and will maintain these amounts unless proper procedures for changing the amount are followed.

Lake Superior College will do periodic surprise cash counts at all change fund locations.

Persons Responsible: Rick Halvorson and Wendy Summers
Date Projected for Completion: May 15, 1997

Finding #6

Lake Superior College is in the process of developing an accurate accounts receivable listing of CCIS, CIS, and MSIS accounts and is pursuing collection of overdue accounts.

Lake Superior College will review its policy regarding student deferments and will address the eligibility requirement for deferments. However, Lake Superior College does not feel that the deferment policy is contributing to the high accounts receivable balance.

Persons Responsible: Rick Halvorson, Wendy Summers
and Diane Rauschenfels
Date Projected for Completion: August 1, 1997

Finding #7

Lake Superior College has recorded all deposits of tuition and fees from Continuing Education and Customized Training, State Grants, and Dental Hygiene services.

Lake Superior College will review the accounting records periodically and make any necessary corrections.

Persons Responsible: Wendy Summers

Date Projected for Completion: Completed

Finding #8

Lake Superior College is reviewing the propriety of all lump sum payments prior to issuance. The function of disbursing lump sum payments has been moved from the Human Resource Department to the Payroll Department

Persons Responsible: Patty Frestedt

Date Projected for Completion: Completed

Finding #9

Lake Superior College will institute an approval system that will ensure that fully executed position request forms are entered on a timely basis.

Lake Superior College will ensure that employees are paid on a prompt basis.

Persons Responsible: Mary Youngstrand

Date Projected for Completion: July 1, 1997

Finding #10

Lake Superior College will take a complete inventory of all items, tagging items as state property, and will record all items over \$2,000 and other sensitive items once the MnSCU System Office has implemented their automated inventory system.

Persons Responsible: Rick Halvorson

Date Projected for Completion: January 1, 1998

Finding #11

Lake Superior College is investigating all cash shortages and overages to determine the reasons for the variances.

The Bookstore managers are counting the receipts before they transfer the funds to the Business Office.

Persons Responsible: Connie North and Aldona Viner
Date Projected for Completion: Completed

Finding #12

Lake Superior College has recorded all revenue and expenses on MnSCU Accounting to produce an accurate income statement for the Bookstore.

Lake Superior College will determine if the makeup is reasonable and will review profits and fund balance.

Persons Responsible: Rick Halvorson and Wendy Summers
Date Projected for Completion: Completed

Finding #13

Lake Superior College's Financial Aid Office has established a policy to eliminate safe access for those individuals who no longer require it.

Lake Superior College's Financial Aid Office will periodically review reports identifying individuals with safe access.

Persons Responsible: Bernie Moog
Date Projected for Completion: Completed

Finding #14

Lake Superior College will limit its requests for federal funds to immediate cash needs. In addition, Lake Superior College will establish forecasting procedures to ensure that sufficient funds are available to meet expected disbursements.

Persons Responsible: Wendy Summers
Date Projected for Completion: June 1, 1997

Finding #15

Lake Superior will maintain complete accounting records to track Federal Financial Aid at the individual program level in conjunction with establishing forecasting procedures for federal funds.

Persons Responsible: Wendy Summers

Date Projected for Completion: June 1, 1997

Finding #16

Lake Superior College will establish a policy in compliance with MnSCU Policy to obtain prior approval before accepting gifts. The approval process will take into account any potential risks associated with the gifts or grants.

Persons Responsible: Rick Halvorson

Date Projected for Completion: July 1, 1997

Finding #17

Lake Superior College will work with the members of its affiliated Foundation to determine the future of the Foundation.

Lake Superior College will develop a written agreement to define the duties and responsibilities of the College and Foundation.

Persons Responsible: Harold Erickson and Rick Halvorson

Date Projected for Completion: January 1, 1998

If you have any questions, please feel free to contact me.

Sincerely,



Harold P. Erickson, Ph.D.

President