Fergus Falls Community College

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

July 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-35

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Mr. Dan True, President
Fergus Falls Community College

We have audited Fergus Falls Community 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 and equipment, state grants, and the book store. 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. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Fergus Falls Community College complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the 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 Fergus Falls Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 23, 1997

Report Signed On: June 25, 1997

SUMMARY

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Fergus Falls Community College

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

Public Release Date: July 2, 1997 No. 97-35

Background Information

Fergus Falls Community College (FFCC) is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state universities, community colleges and technical colleges throughout the state merged under one governance structure. FFCC is a two year college. Dan True is the president of the college.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of financial activities of the college and to determine if the college complied with material finance-related legal provisions. The areas covered by our audit were tuition, payroll and other administrative expenditures, bookstore revenues and expenditures, and student financial aid for the period July 1, 1995, through December 31, 1996.

We concluded that FFCC operated within its available resources and generally operated in compliance with management's authorization and applicable legal requirements for the items tested, including federal student financial aid regulations. Overall, the college designed and implemented internal controls to provide reasonable assurance that its financial activities were properly accounted for and accurately recorded on the accounting systems. The college did not, however, always maintain sufficient collateral for its local bank account.

Other findings discussed in the audit report included improving some controls over tuition receipts. Specific recommendations for tuition included approving administrative adjustments, depositing receipts more timely, and improving controls over continuing education receipts. In the area of administrative disbursements, we noted that the college did not always verify the receipt of goods prior to paying invoices. We also recommended that the college prepare periodic financial statements for its bookstore in order to monitor the operations, including its pricing structure and profitability, more closely.

In its written response to the audit report, Fergus Falls Community College agreed with the report findings and specified its corrective action plans to resolve the issues noted in the report.

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Tony Toscano	Audit Director
Dale Ogren, CPA	Auditor
Susan Kachelmeyer	Auditor

Exit Conference

The following staff from Fergus Falls Community College and the MnSCU system office participated in the exit conference held on June 11, 1997:

MnSCU System Office:	
Laura King	Vice Chancellor and Chief Financial Officer
Teri Welter	Director of Campus Accounting
Fergus Falls Community College:	
Ken Peters	Vice President, Academic Affairs
Dennis Zilmer	Accounting Officer
Robert Anderson	Financial Aid Director

Chapter 1. Introduction

Fergus Falls Community College (FFCC) is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when state universities, community colleges, and technical colleges throughout the state merged under one governance structure. FFCC is a two year college. It serves approximately 1,300 students and is accredited by the North Central Association of Colleges and Secondary Schools. Dan True is the president of the college.

FFCC funds its operations from three major sources: state appropriations allocated by the system office, tuition receipts, and federal revenue. Table 1-1 shows FFCC's revenues and expenditures by type for fiscal year 1996.

Table 1-1
General Fund Financial Activity
Fiscal Year 1996

Sources:	
State Appropriation	$2,960,196
Balance Carry Forward	227,285
Tuition and Fees	1,878,919
Other Revenue	197,622
Total Sources	$5,264,022
Uses:	
Payroll	$4,067,963
Supplies and Equipment	197,272
Travel	52,195
Other	647,335
Total Uses	$4,964,765
Balance	$299,257

Source: MnSCU accounting records.

FFCC is affiliated with the Fergus Area College Foundation, an autonomous, non-profit organization. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds other activities that benefit the public educational mission of the college. The foundation is audited by a private CPA firm. Fergus Area College Foundation had total revenues of $260,047 and total expenses of $182,270 according to its audited financial statements for the year ended June 30, 1996. As of June 30, 1996, the foundation's General Fund balance totaled approximately $76,000 and its Endowed Fund balance totaled about $1 million. The fund balances include both restricted and unrestricted funds.

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Chapter 2. Financial Management

Chapter Conclusions

Fergus Falls Community College operated within its available resources and in compliance with legal requirements and management's authorization. Generally, FFCC designed and implemented internal controls to provide reasonable assurance that the college recorded its State Treasury and local account financial activities on the MnSCU and MAPS accounting systems in a timely manner. The college did not, however, maintain sufficient collateral for its local bank account.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Fergus Falls Community College (FFCC) and all universities and colleges based on an allocation formula. In addition, FFCC, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level.

On July 1, 1995, MnSCU implemented a new computerized accounting system, MnSCU accounting, and a new personnel and payroll system, the State Colleges and Universities Personnel/Payroll System (SCUPPS). MnSCU uses these new accounting systems to manage its financial operations. MnSCU requires each college and university to use MnSCU accounting to record all financial activities, including State Treasury accounts and local activity accounts maintained outside the State Treasury. The state of Minnesota also implemented a new computerized accounting system and a new personnel/payroll system that began operations on July 1, 1995. The convergence of all of these new systems has had an impact on the accuracy and reliability of the financial information at MnSCU and its campuses.

The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses use MnSCU accounting to initiate transactions that involve appropriated funds. MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS then generates State Treasury warrants for state appropriated expenses.

FFCC uses MnSCU's central services unit to process disbursements in the MnSCU accounting system. The college approves invoices for payment, prepares the coding for the payments, and then sends them to the system office for entry into MnSCU accounting. The system office also currently enters personnel transactions for the college and does the mass time entry for classified employees each payperiod. The central services unit is funded directly from MnSCU's state appropriation.

Fergus Falls Community College

MnSCU campuses also administer funds in local bank accounts, separate from the State Treasury. These funds include student financial aid, agency accounts, and enterprise activities such as the bookstore operations. FFCC maintains several local bank accounts, one of which is the All College Fund. This account also served as the college's state depository and link to the State Treasury. FFCC deposited its tuition receipts into this local bank account. All deposits that are not authorized to be outside the State Treasury, such as tuition, are transferred electronically to the State Treasury.

Audit Objectives and Methodology

Our review of FFCC's overall financial management focused on the following questions:

- Did FFCC operate within its available resources and in compliance with legal requirements and management's authorization?
- Did FFCC design and implement controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system as it pertained to each of the individual program areas discussed in the following chapters. We also gained an understanding of management controls in place over the local bank account and the programs included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if FFCC properly recorded revenue and expenditure transactions to MnSCU accounting for both State Treasury activities and its local activities.

Conclusions

Generally, FFCC designed and implemented internal controls to provide reasonable assurance that the college recorded its State Treasury and local account financial activities on the MnSCU and MAPS accounting systems in a timely manner. However, as discussed in Finding 1, the college did not maintain sufficient collateral for its local bank account.

1. FFCC did not maintain sufficient collateral for its local bank account.

During the period July 1, 1995, through September 30, 1995, the cash balances within the All College Fund grew from approximately $38,000 to over $500,000. The balance was consistently over $100,000 from August 18 through October 23. The increase over this time period was primarily due to the accumulation of tuition revenues that were not transferred timely to the State Treasury. This problem occurred because in early fiscal year 1996, the system interface between the college registration system (College Information System or CIS) and MnSCU accounting was not operating as planned. Once the college realized this and began recording tuition revenue in MnSCU accounting, tuition revenue was properly being transferred to the State Treasury. We noted, however, that after the tuition revenues were being transferred timely that the balance in the All College Fund continued to exceed $100,000 consistently through April 1996 and periodically during the remainder of the audit period. As a result, the cash balances in the local bank account, that exceeded the Federal Deposit Insurance Corporations' (FDIC) $100,000 insured amount, were placed at risk.

Recommendation

- *FFCC should monitor local bank account balances to ensure there is sufficient collateral for its local bank account. The college should also consider investing idle cash from its local accounts which would decrease cash balances and increase investment income.*

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Chapter 3. Tuition Revenue

Chapter Conclusions

FFCC generally designed and implemented internal controls to provide reasonable assurance that tuition revenue was accurately reported in the accounting records and in compliance with legal provisions and management's authorization. The college could, however, improve some control procedures over tuition revenues by approving administrative adjustments, depositing receipts more timely, and implementing other controls, including controls over continuing education receipts.

Fergus Falls Community College (FFCC) collected approximately $2 million in tuition and fees during fiscal year 1996. The college uses the MnSCU accounting system which has bookkeeping and general ledger capabilities. MnSCU accounting interfaces with the College Information System (CIS) which maintains registration and accounts receivable information on each student. Resident tuition for the 1996-97 school year was $43.85 per quarter credit plus miscellaneous fees. The tuition for nonresident students was $87.70 per quarter credit plus miscellaneous fees.

The college collected administrative fees for students enrolled in the concurrent enrollment and post secondary options (PSEO) programs. The concurrent enrollment program allows students to take college level classes at their high schools. The college sends instructors to the high schools as mentors and bills the Department of Children, Families & Learning for the fee. The PSEO program allows high school students to enroll in classes at the college in lieu of classes normally taken at their high school. The students receive college credit while fulfilling requirements necessary to graduate from high school. The college bills the Higher Education Services Office for students enrolled in this program.

Audit Objectives and Methodology

The primary objective of our audit of tuition and fees was to answer the following question:

- Did FFCC 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 authorization?

To meet this objective, we reviewed controls over tuition billing, collection, and deposit. We tested samples of transactions to determine if the college had accurately recorded the transactions on the MnSCU accounting system. In addition, we reconciled tuition revenue recorded on the MnSCU accounting system to the credits awarded on the College Information System (CIS).

Conclusion

The college generally designed and implemented internal controls to provide reasonable assurance that tuition revenues were safeguarded, accurately reported in the accounting records and in compliance with legal provisions and management's authorization. As discussed in Findings 2 and 3, however, we noted some weaknesses in the internal control structure over tuition.

2. FFCC needs to strengthen some control procedures over tuition receipts.

FFCC did not adequately safeguard tuition revenues in three areas. First, the college needs to deposit tuition receipts exceeding $250 more timely. Our analysis of deposits indicated that the college made deposits about two to three times per week. The amount of the deposits varied, but generally totaled several thousand dollars. The college did, however, deposit receipts more frequently during peak registration periods. Minn. Stat. Section 16A.275 states that an agency shall deposit receipts totaling $250 or more in the State Treasury daily. FFCC collected approximately $2 million in tuition and fees during fiscal year 1996. Undeposited receipts increase the risk of funds being misplaced or stolen. Also, untimely deposits result in a loss of interest income to the college.

Second, FFCC did not verify the propriety of administrative adjustments. As part of their normal duties, cashiers have the ability to perform administrative adjustments. Administrative adjustments allow the cashier to make changes to student account receivable records. For example, a cashier could reduce the tuition a student owes without affecting the student's registered credits. The system office sends the college a weekly report detailing all administrative adjustments, however, the report is not reviewed by anyone at the college. Because cashiers can enter administrative adjustments and also handle cash, it is essential that the college verify the propriety of administrative adjustments.

Third, the college did not verify in total that it had collected the appropriate amount of tuition revenue based on the number of credits students earned on the registration system. This reconciliation had been completed by the Community College Board Office on a systemwide basis prior to the MnSCU merger. Since the merger, the reconciliation procedure has not been completed. By reconciling tuition revenues recorded on the accounting system to the billable credits on the registration system, the college would gain assurance that it collected the proper amount of tuition at appropriate tuition rates. The reconciliation should consider factors such as credit waivers, non-resident credits, reciprocity credits, and tuition refunds.

Recommendations

- *The college should deposit receipts over $250 timely.*
- *The business manager should review and authorize administrative adjustments.*
- *FFCC should reconcile tuition revenue recorded on MnSCU accounting to credits awarded on the College Information System.*

3. FFCC did not adequately control continuing education tuition receipts.

FFCC did not adequately segregate duties related to non-credit tuition receipts, such as continuing education, senior citizen classes, and safety seminars. The college collected approximately $70,000 in non-credit tuition during fiscal year 1996. One individual was responsible for registration and tuition collection for each of the three types of non-credit classes. The continuing education office sent the receipts to the business office for deposit. The business office deposited the receipts, but did not reconcile the amount to registration information. To effectively control tuition receipts, the college could separate the registration and receipt collection functions or could perform an independent reconciliation between registration information and receipt collection. The lack of an independent reconciliation increases the chance of errors and irregularities occurring and going undetected.

Recommendation

- *The college should ensure that an adequate separation of duties exists for continuing education receipts. It should consider collecting continuing education receipts in the business office or having someone independent of the collection process reconcile receipts to the course roster or list of attendees.*

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Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

Fergus Falls Community College designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were accurately recorded in the accounting records, complied with legal provisions, including bargaining unit agreements, and management's authorization. However, we noted that the college did not always verify the receipt of goods prior to paying invoices for supplies.

FFCC expended approximately $6.6 million during fiscal year 1996. The largest expenditure for the college is payroll which accounted for approximately 63 percent of total expenditures. Other expenditures covered by the audit were supplies, equipment, and travel. The university spent approximately $215,000 on supplies and equipment during fiscal year 1996 and $54,000 on travel.

Objectives

Our review of FFCC's payroll and other administrative expenditures focused on the following questions:

- Did the college design internal controls to provide reasonable assurance that payroll and other administrative expenditures were accurately recorded in the accounting records?
- Did the college comply with material finance-related legal provisions and applicable bargaining unit agreements?

To meet these objectives, we interviewed FFCC employees to gain an understanding of the controls over payroll and other administrative expenditures. We reviewed a sample of expenditure transactions to determine if they were properly authorized, processed, and recorded. We also reviewed expenditures to determine if FFCC complied with material finance-related legal provisions and bargaining unit agreements. Finally, we reviewed FFCC's process to record and review fixed assets.

Conclusions

We concluded that, except for not always verifying the receipt of goods before paying invoices as discussed in Finding 4, FFCC designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were accurately reported in the accounting records. We also concluded that FFCC was in compliance with material finance-related legal provisions and bargaining unit agreements with respect to the items tested.

4. FFCC did not consistently verify the receipt of goods prior to payment of invoices.

FFCC did not verify the receipt of goods before paying for those goods in all cases. The college orders goods from various vendors which were shipped to the college. When received, the goods are delivered to the ordering department without being opened. Although the ordering department may have compared the goods received to the packing slip, it did not always send the packing slip to the business office. In five of the ten items tested, there was no documentation on file to support receipt of the goods ordered. The college spent approximately $450,000 on supplies during fiscal year 1996. Without verifying receipt of goods ordered, FFCC cannot be assured that it is paying only for items received.

Recommendation

- *FFCC needs to assure itself that goods have been received prior to paying the related invoices.*

Chapter 5. Bookstore

Chapter Conclusions

FFCC designed and implemented internal controls to provide reasonable assurance that revenue collections and disbursement transactions were properly recorded in the accounting records. With respect to the items tested, the bookstore operated in compliance with material finance-related legal provisions.

FFCC's bookstore has one full-time employee, one part-time employee, and up to four student workers. A clerk from the business office also is assigned half-time to the bookstore. Payroll for the bookstore is charged to bookstore operations. Every two weeks, funds required to cover payroll are transferred from the bookstore checking account.

The bookstore had revenues and expenditures of approximately $313,000 and $326,000, respectively, in fiscal year 1996 as recorded in the MnSCU accounting system. The college has used MnSCU accounting to account for bookstore activity since May 1996. The fiscal year 1996 beginning fund balance for the bookstore was approximately $196,000. College personnel indicated that the bookstore profits are used for items such as equipment replacement or budget shortfalls in other areas.

The bookstore did not maintain a perpetual inventory system. Individual items were not entered onto separate accounting records when they were received or sold. The bookstore did, however, complete an inventory count at the end of each fiscal year. The business office manager has expressed interest in employing a point-of-sale inventory system. This would be a perpetual inventory system that would track individual items from the purchase through the sale process. This type of system would provide more control over bookstore inventory. The college should analyze the cost/benefit of employing a system such as this.

Audit Objectives and Methodology

Our objective for bookstore operations was to answer the following question:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?

To meet this objective, we met with bookstore and college staff to gain an understanding of the operations. We reviewed controls over bookstore revenues and expenditures. We also performed an analytical review of financial activities and tested samples of transactions to determine if the college had accurately recorded the transactions on the MnSCU accounting system.

Conclusion

FFCC designed and implemented internal controls to provide reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions for the items tested. However, as reported in Finding 5, the college should prepare financial statements for the bookstore in order to monitor the bookstore's financial operations.

5. Fergus Falls Community College did not prepare financial statements for the bookstore in fiscal year 1996.

Fergus Falls transferred its bookstore financial activities onto MnSCU accounting in May of 1996. At that point, the college did not know how to use the new accounting system to prepare financial statements for the bookstore. Therefore, it did not prepare bookstore financial statements for fiscal year 1996. In order to effectively and adequately manage the financial activity of the bookstore, the college should prepare financial statements including the income statement.

The college cannot determine if the bookstore is profitable without an income statement. An accurate income statement would allow the college to measure whether or not the bookstore is properly matching expenses and revenues. In addition, an income statement analysis can aid in determining the correct markup that should be applied to cost of goods sold.

Recommendation

- *Fergus Falls Community College should prepare financial statements for the bookstore in order to monitor financial activity more closely.*

Chapter 6. Student Financial Aid

Chapter Conclusions

FFCC, as of December 31, 1996, designed and implemented internal controls to provide reasonable assurance that the college managed its federal student financial aid programs in compliance with applicable laws and regulations. The college also complied with the requirements for cash management and federal reporting for the items tested.

FFCC also designed and implemented internal controls to provide reasonable assurance that state grants were accurately reported in the accounting records and in compliance with finance-related legal provisions.

FFCC administered both federal and state student financial aid programs. Federal programs covered during the audit period included:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (CFDA #84.032)
- Federal Perkins Loan Program (CFDA #84.038)

The college used three software programs on the College Information System (CIS) to package, award, and disburse student financial aid. These software packages were the accounts receivable system (CIS AR), the student financial aid system (SAFE), and the Loan Management System (LMS) for Perkins Loans.

The Federal Pell Grant is generally considered the first source of assistance to students. Since Pell Grant Payments are not limited to the available funds at the colleges, all eligible students receive aid payments. The maximum Pell Grant was $2,470 for a student in the 1996-97 award year.

Under the Federal Family Loan Program, private lenders provide the loan principal, and the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays the 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.

Under the Perkins Loan Program the college is able to provide new loans as collections are made on previous loans that are repaid. The MnSCU Central Office manages repayments of Perkins Loans. Table 4-1 provides a summary of the financial aid awarded by the college during fiscal year 1996.

Table 6-1
Summary of Federal Financial Aid Disbursed (1)
Fiscal Year 1996

Major Federal Program	Amount	Number of Recipients
Pell Grant	$539,777	394
Perkins Loan (2)	46,357	21
Subsidized Stafford Loan (3)	761,353	356
Unsubsidized Stafford Loan (3)	176,683	90
Total Aid Disbursed	$1,524,170	

(1) The schedule shows only major federal programs as defined by the Single Audit Act.

(2) Total amount of Perkins Loan repayments received during fiscal year 1996 was $30,358.

(3) Stafford loans are handled by local lending institutions.

Source: Fergus Falls Community College Federal Financial Aid Certification (Schedule B) obtained by OLA during the fiscal year 1996 MnSCU Financial Statement and Single Audit (dated 11/21/96).

The state grant programs administered by the college included:

- Minnesota State Grant
- Minnesota Work Study
- Child Care Grant Program

The Minnesota State Grant and Minnesota Work Study awards are determined using the same process that is used for federal financial aid. The Higher Education Services Office (HESO) determine eligibility for state grants by using the information from the students' application for federal student aid. The Child Care Grant Program is a separate program that is administered by HESO. Students prepare a separate application for assistance and submit the application to HESO. Awards are based on the amount of time students spend in school and the amount their care provider charges. The college disbursed approximately $489,000 during fiscal year 1996 for the three programs.

Audit Objectives and Methodology- Federal Student Financial Aid

Our audit of the major federal student financial aid was for the six month period ended December 31, 1996. We reviewed the Pell Grant, Perkins Loan, and Federal Family Educational Loan (subsidized and unsubsidized Stafford Loans) Programs. We focused on the following questions:

- Did FFCC design and implement internal controls to provide reasonable assurance that it managed its student financial aid programs in compliance with applicable general and specific program requirements?

- Did FFCC comply with the requirements for cash management and federal reporting?

To answer these questions, we interviewed college personnel to gain an understanding of the internal controls in place over federal student financial aid. We reviewed federal financial aid authorizations, local bank account records, and financial reports submitted to the U.S. Department of Education. We also reviewed college and MnSCU accounting records. Finally, we performed testing to verify that FFCC had an effective process for packaging, awarding, and disbursing financial aid to eligible students.

Conclusions

FFCC designed and implemented internal controls to provide reasonable assurance that the college managed student financial aid programs in compliance with applicable laws and regulations. The college complied with the general requirements for cash management and federal reporting. In addition, we found that the college executed an effective process for packaging, awarding, and disbursing federal student financial aid.

Audit Objectives and Methodology-State Student Financial Aid

Our review of state grants focused on the following question:

- Did FFCC design and implement internal controls to provide reasonable assurance that state financial aid was accurately reported in the accounting records and in compliance with applicable legal provisions?

The methodology we used to evaluate the audit objective for state grants included inquiries, reviewing grant expenditure documentation, and interviewing key personnel. We performed testing to verify payments were properly recorded in the accounting records.

Conclusion

We found that FFCC designed and implemented internal controls to provide reasonable assurance that state grants were accurately recorded in the accounting records and in compliance with applicable legal provisions.

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Fergus Falls
Community
College

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June 19, 1997

Mr John Asmussen, CPA
Deputy Legislative Auditor
Office of the Legislative Auditor
Centennial Building
St. Paul, MN 55155

Subject: Audit Report Response

Dear Mr. Asmussen:

Per your request, the staff of Fergus Falls Community College has reviewed your audit report of this college for the period of July 1, 1995 through December 31, 1996. The following items respond to the audit finding and recommendations in the same order in which they are listed in your report. Please contact me if further clarification is necessary.

Response to Audit Recommendations

1. **FFCC did not maintain sufficient collateral for its local bank account.**

Recommendation

- *FFCC should monitor local bank account balances to ensure there is sufficient collateral for its local bank account. The college should also consider investing idle cash from its local accounts which would decrease cash balances and increase investment income.*

Response: We concur with this finding. Since the Treasury Department changed the daily depository from their depository account to one of our checking accounts, this brought the balance over the FDIC insured amount. We will have the bank add the necessary additional collateral for this checking account.

2. **FFCC needs to strengthen some control procedures over tuition receipts.**

Recommendation #1

- *The college should deposit receipts over $250 timely.*

Response: We concur, we will make every effort to deposit when receipts reach $250.

Recommendation #2

- *The business manager should review and authorize administrative adjustments.*

Response: As agreed, the Business Manager will verify and sign the authorization for a random sampling of each "Miscellaneous Charges/Administrative Adjustments Report."

Recommendation #3

- *FFCC should reconcile tuition revenue recorded on MnSCU accounting to credits awarded on the College Information System.*

Response: We will expand our budget projection system and include the final calculations using the end of the year FYE to arrive at the calculation stated above. This was previously done by the Community College System Office, we were unaware we were now to do this task.

3. FFCC did not adequately control continuing education tuition receipts.

Recommendation

- *The college should ensure that an adequate separation of duties exists for continuing education receipts. It should consider collecting continuing education receipts in the business office or having someone independent of the collection process reconcile receipts to the course roster or list of attendees.*

Response: The college will have someone independent of the collection process reconcile receipts to the course roster.

4. FFCC did not consistently verify the receipt of goods prior to payment of invoices.

Recommendation

- *FFCC needs to assure itself that goods have been received prior to paying the related invoices.*

Response: As of May 26, 1997, the college established a central receiving station. All goods are opened and the receiving documents are completed and sent to the Business Office, the goods are then delivered to the appropriate area.

5. Fergus Falls Community College did not prepare financial statements for the bookstore in fiscal year 1996.

Recommendation

- *Fergus Falls Community College should prepare financial statements for the bookstore in order to monitor financial activity more closely.*

Response: The Bookstore Financial Statements are included in the Financial Information for MnSCU for FY96. Since the adjusting and closing entries were recorded at the Appropriation level in the Financial Statement adjustment screen, we can not generate financial statements for the bookstore alone, it will contain the other financial information for other areas in the appropriation category. We have been informed by MnSCU System Office that for FY97 the Accounting System WILL be able to generate Financial Statements at the General Ledger level.

Sincerely,

Ken Peeders
Vice President for Academic Affairs
FERGUS FALLS COMMUNITY COLLEGE

KPP:ct