Northland Community and Technical College

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

August 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-45

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Dr. Orley Gunderson, President
Northland Community and Technical College

We have audited Northland Community and Technical College (NCTC) for the period July 1, 1995, through December 31, 1996, as further explained in Chapter 1. Our audit scope included the following areas: general financial management, tuition and fees, administrative expenditures including faculty and staff payroll, bookstore revenues and expenditures, federal and state financial aid and work study, and the college's relationship with the Northland Community and Technical College Foundation and Joint Powers Board. We reviewed the college's internal controls over 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.

At the time of our audit, NCTC was conducting an investigation into potentially improper financial and academic activities in its Management Division. These programs offer accredited courses to individuals involved in business and farm management. Although NCTC had not completed its investigation, we report some control weaknesses associated with the Management Division in Chapter 3 (Finding 5).

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 internal controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that NCTC complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of Northland Community and Technical College is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Northland Community and Technical College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 29, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 27, 1997

Report Signed On: August 26, 1997

SUMMARY

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Northland Community and Technical College

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

Public Release Date: August 29, 1997 No. 97-45

Background

Northland Community and Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Northland Community College and the Thief River Falls campus (one of six campuses) of Northwest Technical College in July 1995 to form one combined college. The college finances its operations through student tuition, fees, and state appropriations. Dr. Orley Gunderson is the president of the consolidated college.

Scope and Objectives

Our audit scope covered the period from July 1, 1995, through December 31, 1996, and reviewed internal controls as of June 1997. We audited general financial management controls; tuition and fees revenue; payroll expenditures; bookstore operations; purchases and operating expenditures; and state grants. We reviewed the college's internal controls over federal student financial aid for fiscal year 1997. In addition, we reviewed the college's relationship with the foundation.

Conclusions

The overall financial management at the college lacked basic controls such as timely bank account reconciliations, proper recording of financial activity, and adequate monitoring of operations. The business office was understaffed and employees had not received adequate training in financial systems and procedures. We were also concerned that the college had an environment that permitted the existence of some potential employee conflicts of interest and possibly other inappropriate conduct by certain employees, including the vice president.

The college did not have an adequate separation of duties in most financial management areas, including tuition and fees, purchasing, bookstore operations, and financial aid. The lack of controls over tuition receipts resulted in the college undertaking an investigation into alleged financial and academic improprieties in its Management Division. In general, the college needs to strengthen procedures in all of these areas.

The college had good controls over payroll expenditures. For financial aid, controls provided assurance it complied with program eligibility requirements. The college did not, however, comply with federal cash management and reporting requirements, and we noted control weaknesses over financial aid disbursements. The college had an appropriate relationship with the Northland Community and Technical College Foundation and the Joint Powers Board.

In its written response, Northland Community and Technical College agreed with the audit report findings and specified a correct action plan to address the issues contained 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
Ken Vandermeer, CPA	Audit Director
Lori Kloos, CPA	Auditor
Shane Smeby	Auditor
Rick Weinmeyer	Auditor

We discussed the findings and recommendations with the following staff of Northland Community and Technical College and the MnSCU system office at an exit conference held on August 15, 1997:

MnSCU System Office:	
Laura King	Vice Chancellor - Chief Financial Officer
Alan Finlayson	Director of System Accounting
Northland Community and Technical College:	
Dr. Orley Gunderson	President
Donna Quam	Acting Business Office Manager
Kelsy Blowers	Director of Financial Aid
Becky Holthusen	Director of Human Resources

Background Information

Northland Community and Technical College (NCTC) is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. MnSCU consolidated Northland Community College and the Thief River Falls campus of Northwest Technical College in July 1995 to form one combined college. Dr. Orley Gunderson has been the president of the college since July 1995. Dr. Gunderson had been president of the Thief River Falls Technical College from July 1980 to June 30, 1992. He served as the Thief River Falls campus president from July 1, 1992, to June 30, 1995, during which time the campus was part of a six campus regional structure of Northwest Technical College.

The college finances its operations primarily from state appropriations and student tuition and fees. The MnSCU System Office allocated a portion of the system-wide appropriation to the individual colleges based on a formula used by the two former community college and technical college boards. The college is responsible for collecting tuition and fees from students. The average full-year equivalent (FYE) enrollment per quarter for the community and technical college combined was approximately 1,200 in fiscal year 1996. The total of appropriations and local receipts establishes the spending authority for the college. Table 1-1 provides a summary of the college's General Fund activity for the fiscal year ended June 30, 1996.

Table 1-1
General Fund Financial Activity
Fiscal Year 1996

Sources:	
Balance Carry Forward	$ 149,207
State Appropriation	6,769,475
Tuition and Fees	2,332,442
Other Revenue	384,430
Total Sources	$9,635,554
Uses:	
Payroll	$6,566,736
Supplies and Materials	221,487
Equipment	400,180
Other	1,648,073
Total Uses	$8,836,476
Balance	$ 799,078

Source: Auditor prepared from MnSCU Accounting System.

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Other material financial activities of NCTC during fiscal year 1996 included about $2 million in federal financial aid payments and bookstore sales of approximately $353,000.

The community college and technical college physically combined operations in fiscal year 1996 to form a consolidated college. For financial and budgetary purposes, the combined college managed separate information systems during fiscal year 1996. NCTC began using one information system in fiscal year 1997.

The consolidated college has five operating divisions: Academic Affairs, Student Services, Finance and Operations, Building and Ground Maintenance, and the Custom Training and Management Division. The Finance and Operations Division is responsible for the financial affairs of the college and includes the business office, purchasing section, bookstore, and personnel office.

NCTC is affiliated with the Northland Community and Technical College Foundation, an autonomous, non-profit organization. Like the community college and technical college, the foundations of each respective institution combined their operations into one foundation. The foundation offers scholarships and funds for other activities that benefit the educational mission of the college.

Chapter 2. Financial Management

Chapter Conclusions

NCTC had a poor system of internal control over its financial management practices during the audit period. The college did not provide basic controls such as reconciling bank accounts timely, ensuring the proper recording of financial activity in the accounting records, and limiting access to information systems. The business office was understaffed and business office employees did not receive adequate training.

We also are concerned that the college had an environment that permitted the potential existence of some employee conflicts of interest and other potentially inappropriate conduct by certain employees. In particular, we found that the vice president's child had received favorable treatment.

The college received funding from the state and through the collection of local receipts, such as tuition and bookstore revenue. MnSCU allocated appropriated funds to individual colleges for both instructional and non-instructional operations. The current instructional allocation formula incorporates a two-year enrollment lag to arrive at annual allocations. The college retains tuition and other local receipts to arrive at its authorized spending level.

The college used both the MnSCU accounting system and the state's new accounting and procurement system (MAPS) to record financial activities. The college recorded accounting transactions in MnSCU accounting and, through a system interface, this information was recorded in MAPS for state appropriated funds for instructional and operational activities. MAPS then generates State Treasury checks for state appropriated expenses. The college accounted for other activities, such as federal financial aid and bookstore transactions, through the MnSCU accounting system, and local records and bank accounts. As of March 1997, the system office has not completed the interface from MnSCU accounting to MAPS for local activities.

Audit Objectives and Methodology

We focused our efforts in addressing the following questions regarding the college's overall financial management:

Northland Community and Technical College

- Did the college have a sufficient process for developing its budget and monitoring financial operations?

- Were college financial activities properly recorded on the MnSCU and MAPS accounting systems?

- Did the college properly account for and control local bank accounts?

To meet these objectives, we reviewed the college's overall budgeting process and the controls over cash management, safeguarding of assets, and recording of financial transactions. We tested transactions as part of the individual program areas discussed later in this report.

Conclusions

NCTC experienced a significant amount of change in the past two years, including the system merger of the state universities, community colleges, and technical colleges, the introduction of several new accounting and personnel information systems, and especially the consolidation of Northland Community College and the Thief River Falls campus of Northwest Technical College and personnel turnover associated with the consolidation. Nevertheless, NCTC has numerous significant financial management problems that must be addressed. The college did not perform fundamental controls such as posting transactions and transferring funds timely, preparing bank account reconciliations, or monitoring financial operations. We were also concerned about inadequate staffing levels, lack of training in financial management, potential conflicts of interest, and other inappropriate activities involving some employees and administrative staff. We discuss these issues more fully in Findings 1 through 4.

Current Findings and Recommendations

1. NCTC did not provide fundamental controls over financial management.

The college had a weak system of internal controls over its financial management processes. We identified significant concerns pertaining to overall financial management in the following areas in which the college did not:

- post financial transactions to MnSCU accounting on a timely basis, resulting in delinquent transfers to the state bank account;

- prepare bank account reconciliations timely; or

- prepare budgetary reports used for monitoring financial operations.

The adverse effect from an absence of these fundamental controls was further compounded by the poor separation of duties at NCTC in many program areas. Chapters

3 through 6 contain additional information related to inadequate separation of duties (see Findings 2, 5, 8, 13, and 16).

NCTC did not post financial transactions to the MnSCU accounting system or transfer funds from local bank accounts on a timely basis. Instead of posting financial activity on a daily, weekly, or monthly basis, the business office posted the entire fiscal year 1996 activity at one time during July 1996. Fiscal year 1996 tuition revenues totaled $2.3 million. NCTC also posted nine months of fiscal year 1997 activity at one time. The delinquent postings resulted in untimely transfers of funds from NCTC to the State Treasury.

In addition, NCTC did not reconcile bank statements since July 1995. NCTC hired an independent accounting firm to identify adjustments required to reconcile the bank statements to various accounting records. Although the accounting firm identified variances for fiscal year 1996 and part of fiscal year 1997, NCTC had not recorded any adjustments as of June 1997. Reconciliations are a key internal control to detect and prevent errors and irregularities. These controls are vital to managing cash effectively and providing accurate financial information.

The lack of posting financial information timely and failure to reconcile bank accounts negatively impacted NCTC's ability to develop accurate budgetary reports to monitor financial operations during fiscal years 1996 and 1997. Also, staff had not received adequate training on the new accounting systems and, therefore, could not generate budgetary reports. As a result, NCTC could not monitor the status of its financial operations and could not determine its ending fund balances available for carry forward into the next year. NCTC contracted with the independent accounting firm to also assist in determining the status of bank account balances available for carry forward. The carry forward analysis could not be completed, however, since NCTC had not posted all transactions to the accounting system. Prior year carry forward amounts represent an important component of the budget development process. Incomplete and inconsistent data negatively impacts management's ability to make key financial management decisions. We discuss concerns with staffing levels and inadequate training in Finding 2.

Recommendation

- *The college must strengthen financial controls to provide timely and accurate financial information and to safeguard assets of the college by performing control procedures such as:*
  - *posting financial transactions to MnSCU accounting and transferring funds on a timely basis;*
  - *preparing bank account reconciliations timely; and*
  - *generating and using budgetary reports to monitor financial operations.*

2. NCTC did not adequately staff financial management functions or ensure that employees received adequate training to fulfill their job duties.

As discussed in the preceding finding, NCTC was not able to obtain reliable financial information necessary for critical management decisions on a timely basis. The president told us he reduced personnel in certain departments, including Finance and Operations, during fiscal year 1996 and again at the start of fiscal year 1997 because he did not have adequate financial information on the consolidated college, including beginning fund balances, and wanted to ensure that NCTC did not experience a budget deficit.

The downsizing occurred during a time when the college's financial position was uncertain, in part because the financial information for the Thief River Falls campus was included with the other five campuses that had comprised the Northwest Technical College. The Thief River Falls Technical College campus had also experienced enrollment declines in prior years. After the downsizing, the business office had a manager and three employees, the bookstore had a manager, and the personnel division had a director and one employee. We believe the downsizing adversely impacted the college's ability to effectively manage its financial operations. Between April and June 1997, NCTC made efforts to appropriately staff the business office by reassigning one employee and using intermittent employees to achieve a more appropriate staffing level in its business operations.

In addition to inadequate staffing levels, NCTC did not ensure staff were properly trained in the use of various accounting systems (CIS, MSIS, MnSCU accounting, and MAPS). The college experienced turnover at various positions due to the downsizing of the combined entity. The downsizing resulted in laying off employees primarily from the community college. Many of the employees from the technical college, however, were not familiar with state regulations or with the new MnSCU or state accounting systems. The lack of continuity of staff was disruptive to the implementation of an effective financial management structure. Proper training of staff in these business systems and procedures is critical to ensure the reliability and proper analysis of financial information. In May 1997, NCTC arranged to have another MnSCU college provide training to its financial management staff.

Recommendation

- *NCTC should ensure that financial management functions are adequately staffed and that employees receive the proper and adequate training to use the accounting systems and effectively manage the business operations of the college.*

3. Potential conflicts of interest and other inappropriate activities occurred involving some college employees.

The vice president potentially used the employee's position to secure advantages for the employee's immediate family. Also, the vice president and two other college employees either directly or indirectly supervised family members under the work study program.

The vice president:

- requested a $188 tuition refund for the vice president's child. Although the president approved the refund, it was requested after the allowable refund period and outside of the NCTC refund policy;

- selected the vice president's child to represent the college at the county fair for four days and approved the wages of $75 a day (which were paid from the college's imprest cash fund) for approximately 8 hours of work each day, when most work study assignments only pay $5.50 per hour;

- allowed the vice president's child to charge approximately $800 at the bookstore against NCTC policy. The charges remained outstanding for up to 16 months. We are not aware of other students receiving this privilege; and

- allowed a personal friend of the family to receive $170 of a Stafford loan in cash instead of applying the funds to tuition owed. As of June 1997, the student owed $1,655 in tuition for 1995 and 1996.

We also found that two college employees and the vice president either directly or indirectly supervised their children who were hired under the college's institutional work study program. The employees also authorized and approved timesheets for their children. Supervision of family members creates a lack of independence and potential impairment of professional judgment. We believe the financial aid office could have avoided these reporting relationships by taking a more active role in work study assignments.

In addition to these issues, we are concerned about other potential improprieties involving college employees as discussed in Finding 4 and in Chapter 6, Finding 17.

Minn. Stat. Section 43A.38, Subd. 5(a), defines a conflict of interest as "... [the] use or attempted use of the employee's official position to secure benefits, privileges, exemptions or advantages for the employee or the employee's immediate family .... which are different from those available to the general public."

Recommendation

- *NCTC should take action to remedy the potential conflicts of interest and the inappropriate activity identified at the college and seek repayment when appropriate.*

4. NCTC did not adequately restrict certain computer security clearances.

NCTC did not adequately restrict computer security clearances in several areas including the business office, financial aid office, and the bookstore. Our review of security over the MnSCU accounting system and the State Colleges and Universities Personnel/Payroll System (SCUPPS) disclosed the following weaknesses.

The college's security administrator granted excessive CIS access privileges to a student worker and did not cancel the access when the student's work study assignment ended, potentially to circumvent MnSCU system office security controls. The MnSCU system office is responsible for approving security requests by the security administrator, and MnSCU had previously denied a request for a second logon ID by the security administrator. The security administrator continued to use both logon IDs. We are concerned about the control weakness that potentially could result if the security administrator signed on to the system twice and left one terminal unattended.

Two former high level employees' system access remained unchanged for several months after terminating employment with NCTC, as did the clearance of a student worker. One of the former employees was the business office manager, and the other employee was the information systems director. Although we found no instances of abuse, both positions present a high risk to systems security.

We also found that one employee had access to the financial aid system (SAFE) and the accounting systems which resulted in an inadequate separation of duties, and that one employee in the business office routinely shared the employee's password with the bookstore manager. The first employee initially worked part-time in the financial aid office and the business office. These duties are incompatible in that the financial aid office authorized financial aid awards and the business office authorized financial aid disbursements. After the employee became a full-time business office employee, the level of security clearance remained unchanged. In the second case, the sharing of passwords weakens the controls over unauthorized access.

Recommendation

- *To prevent unauthorized system access:*
  - -- *personnel should notify the system administrator as soon as possible of any staffing changes affecting employment status or changes in employee responsibilities; and*
  - -- *employees should be reminded of the importance of protecting passwords.*

Chapter 3. Tuition and Fee Revenue

Chapter Conclusions

NCTC control procedures over the collection of tuition and fee revenue were inadequate. The college did not have an adequate separation of duties over tuition revenues in the business office, the Customized Training and Continuing Education Programs, or the management program. Concerns with the decentralized system allowed Management Division instructors to register students and collect tuition resulted in NCTC conducting an investigation into alleged improprieties within that division. Also, the college did not actively pursue the collection of accounts receivable or properly monitor administrative adjustments.

NCTC collected tuition and fees each quarter from students enrolled in campus programs. For fiscal year 1996, the college collected, deposited, and recorded tuition and fee revenue using separate accounting systems. NCTC used the Multi-Campus Student Information System (MSIS) for the collection of technical college tuition and fees and the College Information System (CIS) for the collection of community college tuition and fees. Beginning with fiscal year 1997, NCTC processed all tuition and fee transactions through CIS.

NCTC collected tuition at a resident rate of $40 per credit and a non-resident rate of $80 per credit plus miscellaneous fees for fiscal year 1996. For fiscal year 1997, NCTC charged the resident rate of $41.60 per credit and the non-resident rate of $83.20 per credit, plus miscellaneous fees.

Along with the traditional community and technical college courses, NCTC also offered two specialized programs. The Customized Training and Continuing Education Department provides consultation and educational services to businesses, public institutions, and non-profit organizations in northwestern Minnesota. The courses offered ranged from computer aided design to welding. The Management Division provided courses in business and farm management. Table 3-1 highlights the tuition and fee revenues for fiscal year 1996.

Table 3-1
Tuition and Fees
Fiscal Year 1996

Description	NCC	NTC
Tuition	$905,753	$ 726,078
Fees	33,677	150,101
Customized Training	0	255,955
Management Division	0	371,307
Total Revenues	$939,430	$1,503,441

Source: Auditor prepared from MnSCU Accounting System, CIS/MSIS Registration Systems.

Audit Objectives and Methodology

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

- Did NCTC provide reasonable assurance that tuition and fee receipts were collected at the appropriate amounts, adequately safeguarded, and properly reported in the accounting system?

- Did NCTC tuition revenue collections comply with applicable legal and policy provisions?

To meet these objectives, we met with college staff and reviewed controls over the billing, collecting, and recording of tuition and fee revenue. We reviewed the accuracy of tuition and fee revenue recorded on the MnSCU and MAPS accounting systems.

Conclusions

NCTC control procedures over the collection of tuition and fee revenue were inadequate. Adequate separation of duties did not exist in the college business office, the Customized Training and Continuing Education programs, and the Management Division. The college did not actively pursue the collection of accounts receivable or properly monitor administrative adjustments. NCTC did not reconcile tickets sold for athletic and theater events to receipts collected. Findings 5 through 7 discuss the weaknesses in the controls over tuition revenue.

Current Findings and Recommendations

5. NCTC did not adequately separate duties over the receipts collection process for tuition and other fees, or ensure in total that the appropriate amount of tuition was collected.

NCTC did not properly separate duties in the business office, Customized Training and Continuing Education Department, or the Management Division. This inadequate separation of duties existed for the consolidated college's business office for fiscal year 1996 and fiscal year 1997.

One individual in the business office collected tuition and fees, entered tuition payments on the college information systems, prepared deposits, billed students for outstanding amounts, and maintained accounts receivable records. In the Customized Training and Continuing Education Department, one person prepared and sent out contracts, invoiced students, collected receipts, and completed revenue receipt forms.

In the Management Division, historically, each individual instructor registered students, collected tuition and fees, invoiced students, and collected accounts receivable. In March 1997, however, the business office sent fee statements directly to management students for the first time. As a result, numerous students contacted the college expressing a wide variety of financial and academic concerns about the program. Students complained that they had not enrolled in the program, that they had never previously received a bill from the college, and that they did not owe the college any money (see Finding 6 below). Many of the concerns also pertained to academic issues related to the program including how the program was structured, who was receiving the instruction and corresponding grades, and the quality of the instruction. As a result of these complaints, the college has undertaken an investigation into alleged improprieties in the Management Division.

An inadequate separation of duties exists where one person has control over an entire process or transaction cycle. Such control weaknesses significantly increase the risk that errors or irregularities will go undetected. These duties are incompatible and control should not remain concentrated with one individual.

The college also 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. 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. This procedure also partially addresses the concerns with inadequate separation of duties over tuition receipts. The reconciliation should consider factors such as credit waivers, non-resident credits, reciprocity credits, and tuition refunds.

Recommendations

- *NCTC should separate the duties for collecting, depositing, and recording tuition receipts among employees in the business office.*

- *Receipt processing responsibilities should be assigned to different employees in the Customized Training courses and the Management Division. Alternatively, the business office could perform the receipt collection and invoice processing functions for these programs. Also, the registrar's office should register Management Division students.*

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

6. NCTC did not actively monitor accounts receivable or administrative adjustments.

NCTC did not actively pursue collection of accounts receivable balances. Due to the decentralized tuition and fee collection policies established at NCTC, combined with the lack of an accounts receivable reconciliation to detailed records, NCTC could not accurately determine the number and amounts of outstanding account receivable balances. The problems pertained primarily to the Management Division and the Customized Training and Continuing Education programs. We estimated accounts receivable of approximately $150,000 as of January 1996. The exact amount of accounts receivable is uncertain because of the potential improprieties identified in the Management Division as reported in Finding 5.

In addition, NCTC needs to improve its monitoring of administrative adjustments. Administrative adjustments resulted, for example, when errors occurred in student billing statements. The business office then corrected the errors when the students paid their fees based on information received from the registrar's office. NCTC received a weekly MnSCU report summarizing miscellaneous charges and administrative adjustments, but did not use the report to verify the propriety of the administrative adjustments processed by the system.

Recommendations

- *NCTC should pursue collection of outstanding accounts receivable.*
- *NCTC should review the weekly administrative adjustment report to ensure that adjustments are proper.*

7. NCTC did not verify the accuracy of tickets sold for athletic and theater events.

NCTC did not ensure that the appropriate amount of receipts for athletic and theater event ticket sales were collected and deposited. NCTC collected receipts for athletic events as well as for theater department events. The sales amounted to approximately $172,000 in fiscal year 1996. Students collected receipts at each athletic event for the athletic director, who forwarded the collections to the business office for deposit. The college could reconcile receipts by type of ticket (adult, student, children) to the range of ticket numbers used in order to ensure that the correct amount of revenue was collected.

We reported this issue in two prior audits of Northland Community College. We are also concerned that the level of revenues generated from athletic and theater events will increase with the construction of the multi-events center.

Recommendation

- *NCTC should reconcile tickets sold to revenue collected for athletic and theater events.*

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Chapter 4. Administrative Expenditures

Chapter Conclusions

NCTC provided reasonable assurance that payroll and personnel transactions were authorized, accurately recorded in the accounting records, and in compliance with applicable statutory provisions and related bargaining unit agreements for the items tested. NCTC needs to strengthen controls over its purchasing function, however, to ensure that purchases are authorized and that payments are for the correct amounts. The college also needs to establish an inventory system for equipment or fixed assets.

Administrative expenditures for fiscal year 1996 are highlighted in Table 4-1 and discussed in the next two sections of this chapter.

Table 4-1
Administrative Expenditures
Fiscal Year 1996

	Total
Administrative Expenditures:	
Payroll	$5,326,485
Benefits	1,486,773
Supplies and Materials	478,909
Equipment	424,727
Miscellaneous	1,098,704
Total Expenditures	$8,815,598

Source: Auditor prepared from MnSCU accounting system.

Supplies, Services, and Equipment

Expenditures for supplies, services, and equipment amounted to approximately $2 million in fiscal year 1996. Instructors or department heads initiated purchase requests. According to NCTC policies, if the request was over $100, the college president or vice president should sign the request.

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Audit Objectives and Methodology

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

- Did the college provide reasonable assurance that expenditures for goods and services were properly authorized and accurately reported in the accounting records?
- Did NCTC's purchasing and expenditure process comply with applicable legal requirements?

To answer these questions, we made inquiries of college employees to gain an understanding of the purchasing process. We tested sample purchases and purchased services to determine whether the college had adequate supporting documentation, paid the correct amount, properly recorded transactions in the MnSCU system, and complied with MnSCU purchasing policies.

Conclusions

NCTC needs to strengthen controls to ensure that purchases are authorized and paid in the correct amounts. In addition, the college did not have an inventory system for equipment or fixed assets. Findings 8 and 9 address these weaknesses.

Current Findings and Recommendations

8. NCTC needs to strengthen controls to ensure that purchases are authorized and that corresponding expenditures were paid in the correct amounts only for items received.

We noted the following weaknesses in the business office's purchasing procedures:

- There was a lack of separation of duties over purchases in that the college allowed individuals who authorized purchases to receive goods directly. Also, manual checks issued for purchases under $100 were not reviewed by a supervisor. Effective internal controls over the purchasing function provide that someone independent of the authorization of the purchase receive the goods to ensure the propriety of the transaction. Also, the process of issuing manual checks presents added risks that could be controlled by requiring an independent review.
- NCTC did not maintain documentation to support bids and written contracts for goods and services. MnSCU System Procedure 5.5.2, Part 4, Subpart A through D, required the college to retain documentation of bids and written contracts. Competitive bids and contracts provide control over the cost of the items and ensure that the college obtains the best possible price. Without this documentation, the college could not verify that invoices were consistent with contract amounts.

- The college did not routinely check the math accuracy of invoices and did not consistently record disbursements to the correct cost centers. These comparisons verify that the purchase was authorized, and that rates, quantities, descriptions, terms, and freight are correct. The lack of internal verification could result in NCTC paying more for goods and services than is required.

Recommendation

- *NCTC should develop a system of internal verification to ensure that purchases are authorized and that payments are accurate, valid, and in compliance with MnSCU policies.*

9. NCTC did not have an inventory system for equipment and fixed assets.

NCTC had not devised a record-keeping system to record and account for equipment and fixed assets. Also, the college has not marked its fixed assets as state property other than computer purchases. Fixed asset purchases totaled approximately $424,000 in fiscal year 1996. MnSCU System Procedure 5.5.2, Part 11, 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.

In order to develop an inventory system, the college should do a complete physical inventory of assets. The college's inventory procedures should also address sensitive items. Sensitive items are those items with a value of less than $2,000 that are highly susceptible to theft or loss. The MnSCU System Office is currently developing a new automated inventory system for use by colleges. Without an adequate system of accounting for fixed assets, instances of theft or misuse of state property could go undetected.

Recommendation

- *NCTC should record inventory and fixed assets on an inventory system, mark items as state property, and complete periodic physical inventories to help ensure assets are adequately controlled and that fixed asset accounting records are accurate.*

Payroll

The college had payroll expenditures of approximately $6.8 million for fiscal year 1996, representing the largest expenditure for the combined college. NCTC employed approximately 300 staff, consisting of 150 full-time and part-time employees and 150 seasonal or non-regular employees. Employees at NCTC are members of the following compensation plans: American Federation of State, County, and Municipal Employees (AFSCME), Minnesota Community College Faculty (MCCFA), Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Commissioners Plan, Excluded Administrators Plan, and United Technical College Educators Plan (UTCE).

During most of 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 and personnel transactions. Beginning in June 1996, NCTC converted to the Minnesota Statewide Employee Management (SEMA4) payroll system. Together the accounting and personnel systems stored pay rate information and bargaining agreement history, calculated employee payroll, and administered leave accruals for classified and unclassified employees.

NCTC maintains separate human resource and payroll sections. The human resources section administers the personnel function. The payroll section processes biweekly payroll. The MnSCU central office inputs both the personnel and payroll information into the respective information systems. NCTC began inputting its own payroll in April 1997.

Audit Objectives and Methodology

We focused our review of payroll on the following questions:

- Did the college's internal controls provide assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?

- Did the college's payroll expenditures comply with applicable statutory provisions and related bargaining agreements?

To address these objectives, we obtained a general understanding of the internal control structure over the payroll and personnel process. We interviewed employees of the college and the MnSCU System Office. We documented our understanding of the policies and procedures applied, identifying who was responsible for performing specific payroll duties. We gained an understanding of the personnel and payroll accounting systems used by the college. We also performed detailed tests of a sample of employee payroll transactions to support our conclusions. In addition, we analyzed overtime expenditures, payroll advances, and performed other analytical procedures.

Conclusions

NCTC internal controls provided reasonable assurance that payroll transactions were authorized, accurately reported in the accounting records, and complied with applicable statutory provisions and related bargaining unit agreements for the items tested.

Chapter 5. Bookstore Revenues and Expenditures

Chapter Conclusions

The bookstore did not follow NCTC and MnSCU purchasing policies and procedures. In addition, NCTC did not prepare periodic financial statements for the bookstore, develop policies for the use of bookstore profits, or adequately separate duties over the operation of the college bookstore.

The community college and the technical college bookstores combined operations in July 1995. The bookstore sold books, school supplies, clothing, and other items. Table 5-1 shows a summary of bookstore revenues and expenditures for fiscal year 1996.

Table 5-1
Bookstore Revenues and Expenditures (1)
Fiscal Year 1996

Revenues	
Sale of Books, New and Used	$263,348
Sale of Supplies, Merchandise	86,168
Other Income	6,626
Refunds	(3,637)
Total Revenue	$352,505
Expenditures	
Books, New and Used	$231,752
Other Supplies Purchased for Resale	34,248
Bookstore Payroll	33,769
School Supplies	12,317
Other Expenditures	10,138
Total Expenditures	$322,224
Revenues over Expenditures (2)	$ 30,281

(1) This schedule is only intended to provide general information about bookstore financial activities.
(2) Since the college did not calculate cost of goods sold and did not allocate certain expenses to the bookstore, net income cannot be determined.
Source: MnSCU accounting system as of December 31, 1996.

Audit Objectives and Methodology

We focused our review of bookstore revenues and expenditures on the following objectives:

- Did NCTC provide reasonable assurance that bookstore receipt and disbursement transactions were properly authorized and accurately reported in the accounting records?

- Did the bookstore financial transactions comply with applicable statutory provisions?

To meet these objectives, we interviewed bookstore staff to gain an understanding of the controls in place over bookstore revenues and expenditures. We also performed analytical reviews and tested samples of transactions to determine if the college had adequate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

Conclusions

The bookstore did not follow NCTC and MnSCU purchasing policies and procedures, did not prepare financial statements for the bookstore, and did not develop policies addressing the use of bookstore profits. In addition, NCTC did not adequately separate duties over the operation of the bookstore. Findings 10 through 13 discuss weaknesses in the controls over bookstore receipt and disbursement transactions.

Current Findings and Recommendations

10. The bookstore did not comply with MnSCU and NCTC purchasing policies.

The bookstore did not submit purchase requests to the business office for the purchase of goods and did not process purchase orders through the MnSCU accounting system. NCTC purchasing policies and procedures required employees to submit a properly authorized purchase request form to the business office for purchases over $100.

Various college departments also used the bookstore rather than the business office to process their purchase requests. In reviewing bookstore disbursement transactions, we observed many disbursements that were charged back to various college departments. Many of the disbursements were for computer purchases. Bookstore noncompliance with NCTC and MnSCU purchasing policies coupled with college department purchases being processed by the bookstore, may result in unauthorized or inappropriate purchases.

The bookstore also did not maintain a permanent file for competitive bids and quotations. MnSCU System Procedure 5.5.2, Part 4, Subpart A through Subpart D, required that all bids and quotations for purchases of goods and services be kept on file until audited. Maintaining a file of all competitive bids and quotations helps to ensure that the bookstore complied with

NCTC and MnSCU competitive bidding procedures and obtained the best possible price for its goods and services.

Recommendation

- *The bookstore should comply with MnSCU purchasing policies.*

11. NCTC did not prepare periodic financial statements for the bookstore.

NCTC did not prepare periodic financial statements for the bookstore. The technical college and the community college bookstores had prepared financial statements prior to the merger. NCTC could not prepare financial statements from the accounting system since neither the bookstore nor the business office entered bookstore transactions into the MnSCU accounting system until September 1996. Without periodic financial statements, the college administration cannot monitor the bookstore operations and accurately determine if the bookstore is operating in a profitable manner.

Recommendation

- *NCTC should prepare periodic financial statements for the bookstore to monitor operations.*

12. NCTC used bookstore profits for questionable purposes.

In fiscal year 1996, the college used bookstore profits to write-off approximately $3,600 in tuition refunds to students. The college registrar was not aware of some of these refunds. The vice president cited NCTC errors as the explanation provided for the refunds. Based on the documentation available, however, we were not able to determine the reason for the errors. Bookstore profits should not be used for tuition refunds. Rather, tuition refunds that meet the college's refund criteria should be charged back to the tuition account. The practice of charging tuition refunds to the bookstore in effect shifted bookstore resources to the General Fund.

NCTC also used bookstore profits to pay emergency loans to students. While this may be an allowable use, bookstore profits should be designated for activities that benefit the general student population and that the college administration agrees with. Without policies addressing the use of bookstore profits, the potential risk of misuse increases. As of June 30, 1996, the NCTC bookstore had a fund balance of about $168,000.

Recommendation

- *NCTC should develop policies and procedures for the use of bookstore profits.*

13. NCTC did not adequately separate duties over financial operations in the bookstore.

One bookstore employee processed purchase orders, received goods, entered receipts and disbursements into the MnSCU accounting system, deposited bookstore receipts, paid invoices, and conducted the physical count of year-end inventory. A strong system of internal control provides that one employee is not solely responsible for a complete accounting cycle. At a minimum, different individuals should be responsible for the physical custody of assets and the accounting for the assets. For the purchasing function, responsibilities for authorizing purchases, receiving goods, and disbursing funds should be assigned to different individuals whenever possible. Likewise, different employees should be involved in collecting receipts and accounting for receipt transactions. Without an adequate separation of duties, errors or irregularities could go undetected and result in inaccurate records.

Recommendation

- *NCTC should separate the duties of processing purchase orders, receiving goods, maintaining accounting records, processing disbursements, depositing and accounting for receipts, and conducting the year-end inventory of the bookstore.*

Chapter 6. Federal and State Financial Aid and Work Study

Chapter Conclusions

NCTC did not manage federal, state, and local student financial aid disbursements in compliance with applicable program requirements. Although the college had adequate controls to provide assurance that packaging and awarding of student financial aid complied with eligibility requirements, duties were not properly separated, disbursements were not properly controlled, and computer system processing errors were not resolved. Also, NCTC did not comply with federal cash management and reporting requirements.

NCTC participated in several state and federal student financial aid programs. The college administered separate financial aid systems for the community college and technical college through fiscal year 1996. Starting in July 1996, the college used the SAFE system to process all financial aid activity. Table 6-1 highlights the program funding for fiscal year 1996 for federal and state grants funding.

Table 6-1
Financial Aid Programs
Fiscal Year Ended June 30, 1996

Federal Programs:	
Perkins Loan Program (CFDA #84.038)	$ 26,676
Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)	62,943
Work-Study (FWS) Program (CFDA #84.033)	92,649
Pell Grant Program (CFDA #84.063)	686,434
Federal Family Education Loan (FFEL) Programs (CFDA #84.032) (1)	1,154,887
Total Federal Programs	$2,023,589
State Programs:	
State Work study	$ 50,383
Miscellaneous State Grants	72,952
Minnesota State Grants	447,732
Total State Programs	$ 571,067

(1) Funds provided by private lenders.
Source: NCTC Financial Aid Records and MnSCU accounting system.

The first source of assistance to the student is typically a Federal Pell Grant. Eligible students will receive aid payments since the amount of funds available at the college do not effect the Pell Grant payments. The maximum Pell Grant award was $2,340 in fiscal year 1996.

Under the Federal Family Education Loan Program (FFEL), private lenders provide the loan principal and the federal government guarantees the loan. For subsidized 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 Perkins Loan Program provides low-interest loans to students. Community colleges act as a lender, using both federal funds and a state match for capital contributions. Perkins loan repayments are centrally administered for all community college campuses.

The Federal Work-Study Program (FWS) and Federal Supplemental Educational Opportunity Grant (FSEOG) programs are additional sources of student federal financial aid. The college must contribute a non-federal share of 25 percent.

NCTC also processes student financial aid funded by the state of Minnesota. These programs complement the federal financial aid available to eligible students. The types of state student financial aid programs include funding for tuition, fees and books, student work study, child care, and miscellaneous other programs.

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 comply with federal cash management and reporting requirements?

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 also reviewed and tested controls and transactions related to state and locally-funded student financial aid. We evaluated and tested controls over compliance for student eligibility, awards, and disbursements. We also tested the federal cash management practices and reporting requirements.

Conclusions

The college had adequate controls to provide assurance that the packaging and awarding of student financial aid complied with eligibility requirements. NCTC did not, however, manage federal, state, and local student financial aid disbursements in compliance with applicable program requirements. NCTC also did not comply with applicable cash management and federal reporting requirements. We discuss these issues in Findings 14 through 18.

Current Findings and Recommendations

14. Computer system processing errors affecting financial aid remain uncorrected.

The financial aid office identified the following problems relating to concerns with the College Information System, the financial aid system, and the MnSCU accounting system that affected financial aid disbursements.

A computer programming error on the College Information System (CIS) resulted in student enrollment status changing from "actual" to "estimated" when students dropped all classes prior to the start of a quarter. This allowed ineligible students to receive financial aid. Through NCTC discussions with the software company that developed the system, we believe MnSCU could install a feature in the system to prevent this problem.

Even after becoming aware of the problem with CIS enrollment information, the business office relied on CIS and did not verify student enrollment status prior to disbursing financial aid checks. This resulted in potential overpayments to six students totaling $3,186; actual overpayments totaling $283 were paid to two students. The financial aid office could have detected two of the erroneous payments by reviewing the error exception reports. We could not determine the full extent of the overpayments because the financial aid office did not retain error reports.

Other problems with the financial aid system that resulted in inefficiencies included academic year 1997-98 award letters that did not include grant amounts, and summer session cost of attendance budgets that reverted back to the base academic year budget after batch processing. Financial aid staff manually reviewed all financial aid award letters generated to determine which were incorrect. Through correspondence between the college and the software company, as well as individuals at the MnSCU systems office and other institutions, we believe the problems with the award letters and cost of attendance budgets resulted from edits being turned off during batch processing. MnSCU staff turned off edits during batch processing due to the large amount of computing resources these edits require. We believe the MnSCU System Office compromised the controls over batch processing by switching certain edits off during the batch processing cycle.

Recommendations

- *NCTC and MnSCU should work together to resolve the computer system programming errors. Until the programming errors are resolved, NCTC should verify student enrollment through the registrar's office prior to disbursing aid.*
- *MnSCU should not suspend critical financial aid computer edits or should notify colleges if edits are turned off during processing.*

15. NCTC did not verify financial aid awarded to financial aid disbursed to students.

NCTC did not verify financial aid awarded to financial aid disbursed on a student-by-student basis as required by federal regulations. The business office also did not ensure that total aid disbursed in summary agreed with total aid awarded because it did not retain reports or records of total aid disbursed to students. Without a reconciliation of aid awarded to aid disbursed, inappropriate payments or payments over the amount awarded could occur and remain undetected.

Recommendation

- *NCTC should reconcile financial aid awarded to aid disbursed and record all financial aid disbursements.*

16. NCTC did not adequately separate duties over work study and emergency loans.

Financial aid employees awarded financial aid to students, including work study, added new student workers to the student payroll system, collected and prepared timesheets for processing, received payroll checks, reconciled the student payroll, and occasionally disbursed the checks to students. For emergency loans, one individual in the financial aid office issued checks, collected payments, made deposits, and reconciled the account.

When one person has control over an entire accounting process or transaction cycle, the risk that errors or irregularities will go undetected increases significantly. Incompatible duties exist when several responsibilities are concentrated with one individual, therefore eliminating an independent verification by another individual. NCTC could separate incompatible duties by reassigning job duties or by involving other individuals to provide independent review and verification over work study and emergency loans. At a minimum, NCTC could separate the physical custody of the assets from the record keeping function to provide control over the collection and payment process.

Recommendation

- *NCTC should assign some of the student payroll and emergency loan responsibilities among the financial aid, payroll, and business offices to ensure adequate separation of duties.*

17. NCTC made financial aid overpayments to several students.

NCTC made overpayments totaling $5,396 in financial aid to several students. The overpayments resulted from the following situations.

- A student received an overpayment of $962. This resulted from an improper increase to the student's cost of attendance budget for summer session 1995-96. The student received work study aid for the summer session even though the student did not enroll for summer session classes in 1995-96. According to federal guidelines, the student's earnings during a period of nonenrollment are applied to pay the student's cost of attendance for the next period of enrollment. Ultimately, the student received financial aid for a 15-month academic year in 1996-97.

- Four students received overpayments totaling $1,354 due to scholarships and Job Training Partnership Act (JTPA) monies received in addition to financial aid assistance. NCTC did not include these awards as part of the students' total resources when packaging, awarding, and disbursing financial aid as required by federal regulations.

- The financial aid office did not adequately monitor one student for unsatisfactory academic progress. The student attended NCTC during academic years 1995-96 and 1996-97. During the first quarter of the student's attendance, NCTC noted the student had not met satisfactory academic progress requirements. Each quarter thereafter, the student failed to make satisfactory academic progress for a two-year period. If NCTC had followed up on their initial flag of this student, the student would have been suspended after two quarters. Because NCTC failed to suspend the student after two quarters of unsatisfactory academic progress, the student inappropriately received $2,143 in financial aid.

- The financial aid office failed to challenge questionable information submitted by the child of a faculty member. The federal financial aid application submitted by this student reported the parents' marital status as separated. The student's file, however, showed that the parents had filed a joint federal tax return. Federal regulations require that the college resolve conflicting information in financial aid files. In this case, the parents' combined income exceeded the limit for the student to receive any need-based federal aid. As a result, the student may have inappropriately received $447 in Pell Grant funds and $207 in state grants.

- Two students received overpayments of $283 because NCTC omitted verification of student error exception reports. NCTC collected $141 from one student but failed to collect the overpayment of $142 from the other student. As noted in Finding 14, the erroneous payments resulted from a CIS computer programming error that reported that students who were no longer enrolled at NCTC were entitled to receive financial aid.

Recommendation

- *NCTC should work with the U.S. Department of Education and the Minnesota Department of Education to resolve the federal and state financial aid overpayments.*

18. NCTC did not properly control cash for federal financial aid activities.

NCTC had a weak system of internal controls for cash management of financial aid activities. We identified significant cash management concerns in the following areas in which the college did not:

- disburse federal financial aid within three days of receipt;
- monitor bank account balances to avoid bank overdrafts;
- obtain sufficient collateral to protect its bank account balances; or
- deposit Perkins drawdowns into an interest bearing account or provide the required institution match.

NCTC did not comply with federal regulations requiring disbursement of financial aid funds within three days of receipt. NCTC had six instances during fiscal year 1996 where federal drawdowns remained in the local bank account from 9 to 19 days before disbursement. The six drawdowns totaled approximately $300,000.

NCTC also disbursed financial aid checks to students that resulted in checks returned for insufficient funds. NCTC deposited the federal drawdowns into a financial aid local bank account and then transferred the funds to either the community college local bank account or the technical college local bank account for disbursement. At one point during December 1995, NCTC had a negative balance of over $100,000 in the college's local bank account. The bank returned more than 25 checks for insufficient funds, including some checks cashed for financial aid. At this time, the technical college local bank account showed at least $280,000 that was available to cover these charges. The availability of the funds was not readily apparent, however, since NCTC did not reconcile the account as discussed in Chapter 1, Finding 1.

NCTC also did not have sufficient collateral to protect its bank account balance. Total coverage for the account was approximately $144,000, including FDIC insurance. The December 1996 community college local bank statement showed an ending balance of over $1.1 million, indicating NCTC's collateral was insufficient. Federal Regulation 34 CFR Section 668.164, Subd. (c) (2) (ii), requires agencies to secure federal funds with collateral coverage reasonably equivalent to the amount of Title IV funds in the account.

Finally, NCTC did not deposit Perkins Loan drawdowns into an interest-bearing account and did not make the Perkins Institutional Capital Contribution (ICC) for fiscal years 1996 and

1997. The ICC for fiscal year 1996 amounted to $3,748. Federal Regulation 34 CFR, Section 674.19 (b) (4) (i), requires that Perkins funds be deposited into an interest bearing account. Federal Regulation 34 CFR Section 674.19 (c) requires that an institution deposit its ICC at the same time or prior to the deposit of the Federal Capital Contribution (FCC).

Recommendation

- *NCTC should establish procedures to safeguard financial aid funds and ensure compliance with applicable requirements by performing control procedures such as:*

  -- *disbursing federal financial aid within three days of deposit;*

  -- *monitoring bank balances to ensure accounts are not overdrawn;*

  -- *obtaining sufficient collateral to cover its bank account balances; and*

  -- *following federal requirements for Perkins drawdowns and Perkins match.*

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Chapter 7. Northland Community and Technical College Foundation and the Joint Powers Board

Chapter Conclusions

The college had appropriate relationships with the Northland Community and Technical College Foundation and the Joint Powers Board.

The Northland Community and Technical College Foundation is a private, non-profit organization created to support the programs and students at the college. The foundation has its own board of directors, articles of incorporation, and by-laws. Although the NCTC president is a member of the board of directors, he is restricted from participating in management decisions as an ad hoc member. The foundation maintains its own financial records and accounts. State law requires the foundation, as a charitable organization, to file annual financial reports with the Attorney General's Office. Foundation receipts and expenditures totaled approximately $60,000 and $23,000, respectively, for the period ending December 31, 1996.

In April 1995, NCTC entered into a joint powers agreement with the City of Thief River Falls, the County of Pennington, and Independent School District No. 564. The agreement addressed the coordination of efforts to finance, construct, and operate a $4 million Multi-Cultural Events Center to be located on the NCTC campus.

Audit Objectives and Methodology

We focused our review of related organizations on the following objective:

- Did the college have an appropriate relationship with the NCTC Foundation and the Joint Powers Board?

We reviewed the foundation's relationship with the college and gained an understanding of changes made since our last audit report. We wanted to ensure that the foundation operates as an independent entity, apart from the college. We also reviewed the organization of the Joint Powers Board and the corresponding agreement. We did not conduct an audit of the foundation or the Joint Powers Board.

Northland Community and Technical College

Conclusions

The college improved its relationship with the foundation during the audit period. The college executed a contract with the foundation in July 1996 that outlined expectations and responsibilities of each organization. NCTC also executed an agreement with the Joint Powers Board. The foundation and the Joint Powers Board were in compliance with state registration requirements for charitable organizations for filing annual financial statements.

August 20, 1997

Mr. James R. Nobles
Legislative Auditor
Centennial Building, 658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

I am writing to respond to the findings and recommendations made in the Financial Audit of Northland Community and Technical College. Mr. Riebe and his team conducted the audit in a very professional manner. I believe the recommendations they have made will greatly improve and strengthen our new consolidated college.

Finding #1:
NCTC did not provide fundamental controls over financial management.

We agree with the finding.

We are now posting financial transactions on a timely basis. In September we will hire a new Business Manager. Posting and reconciliations will be done in a timely manner and budgetary reports will be generated to monitor financial operations.

Persons Responsible: Business Manager
Date Projected for Completion: By October 1

Finding #2:
NCTC did not adequately staff financial management functions or ensure that employees received adequate training to fulfill their job duties.

We agree with the finding.

The college has made efforts to appropriately staff the business office during the past several months by reassigning one staff member to the business office and utilizing intermittent employees. Due to the recent resignation of the Business Manager, departmental restructuring and staffing issues have been delayed as to include the input of the new Business Manager.

Finding #2 continued

The new Business Manager will be hired in September 1997. The President and Director of Human Resources will work with the Business Manager to address the structure and staffing needs of the business office.

Persons Responsible: President
Date Projected for Completion: December 1, 1997

The college will continue to seek appropriate training opportunities. If appropriate training is not available through MnSCU, the college will research opportunities with other MnSCU institutions or consultants.

Persons Responsible: Business Manager
Date Projected for Completion: Immediately

Finding #3:
Potential conflicts of interest and other inappropriate activities occurred involving some college employees.

We agree with the finding.

The President will arrange training for employees on conflict of interest issues and ethics. The college will also seek repayment from parties where it is found to be appropriate. The financial aid office has included a statement in the 1997/98 work study information provided to supervisors that "work study supervisors cannot employ relatives as their work study student". The financial aid office will actively disseminate this information and will not allow supervisors to employ relatives in the future.

Persons Responsible: President
Date Projected for Completion: No later than November 1.

Finding #4:
NCTC did not adequately restrict certain computer security clearances.

We agree with the finding.

The security administrator will provide a monthly report to the President including all persons authorized to system access and the area of which they are authorized. The President will verify the accuracy of the report and direct the security administrator to make necessary additions and/or deletions. Upon receipt of the first report from the security administrator, the President will send correspondence to each employee who has access to the system, directing them not to share their log in and password with anyone.

Finding #4 continued

The security administrator was instructed to delete access to the SAFE system for the employee who also had access to the accounting systems. This request was made in June when the auditors brought it to our attention.

Persons Responsible: President
Date of Projected Completion: Immediately

Finding #5:
NCTC did not adequately separate duties over the receipts collection process for tuition and other fees, or ensure in total that the appropriate amount of tuition was collected.

We agree with the finding.

The college has implemented a process that separates the duties for collecting, depositing, and reconciling tuition among employees in the business office. The Registrar's office now registers all management students. The receipt processing and registration system in custom training will be revised to ensure separation of duties. The Registrar will generate a report on credits sold and the business office will reconcile the report to tuition dollars deposited and accounts receivables.

Persons Responsible: Business Manager
Date of Projected Completion: By end of Fall Quarter 1997

Finding #6:
NCTC did not actively monitor accounts receivable or administrative adjustments.

We agree with the finding.

The college is now monitoring accounts receivable through monthly statements and pursuing collection by working with Minnesota Collection Enterprise. The administrative adjustment report is being reviewed weekly and maintained.

Persons Responsible: Business Manager
Date of Projected Completion: Immediately

Finding #7:
NCTC did not verify the accuracy of tickets sold for athletic and theater events.

We agree with the finding.

Finding #7 continued

The business office will set up a process which will reconcile tickets sold to revenue collected.

Persons Responsible: Business Manager
Date of Projected Completion: In effect for Fall Quarter 1997

Finding #8:
NCTC needs to strengthen controls to ensure that purchases are authorized and that corresponding expenditures were paid in the correct amounts only for items received.

We agree with the finding.

The college will develop and implement a system of internal verification to ensure that purchases are authorized and that payments are accurate, valid, and in compliance with MnSCU policies.

Persons Responsible: Business Manager
Date of Projected Completion: By October 1, 1997

Finding #9:
NCTC did not have an inventory system for equipment and fixed assets.

We agree with the finding.

The college will assign personnel to record and inventory fixed assets on an inventory system.

Persons Responsible: Business Manager
Date of Projected Completion: Begin before end of Fall Quarter 1997.

Finding #10:
The bookstore did not comply with MnSCU and NCTC purchasing policies.

We agree with the finding.

Purchase orders for the bookstore will comply with MnSCU purchasing policies.

Persons Responsible: Business Manager
Date of Projected Completion: Immediately

<u>Finding #11:</u>
NCTC did not prepare periodic financial statements for the bookstore.

We agree with the finding.

Beginning the end of August, the Business Manager will provide monthly financial statements to the college administration.

Persons Responsible: Business Manager
Date of Projected Completion: Immediately

<u>Finding #12:</u>
NCTC used bookstore profits for questionable purposes.

We agree with the finding.

The college will develop policies and procedures for utilizing bookstore profits that will protect funds from being misused.

Persons Responsible: Business Manager
Date of Projected Completion: By the end of Fall Quarter 1997

<u>Finding #13:</u>
NCTC did not adequately separate duties over financial operations in the bookstore.

We agree with the finding.

A process will be implemented to separate duties of processing purchase orders, receiving goods, maintaining accounting records, processing disbursements, depositing and accounting for receipts, and conducting the year-end inventory of the bookstore.

Persons Responsible: Business Manager
Date of Projected Completion: Immediately.

Finding #14:
Computer system processing errors affecting financial aid remain uncorrected.

We agree with the finding.

MnSCU has created a batch process SC11 Enrollment Level Update Audit Report which may be run once a quarter after the drop/add period. We believe this report will prevent situations as cited where students received aid when they had dropped enrollment prior to the start of the quarter. The business office will verify enrollment at the time of disbursement.

The financial aid office will review error exception reports and will work to implement a process to determine when error exception reports are not received so tracking can occur. Financial aid staff addresses computer issues both with MnSCU computer operations department and the software creator of SAFE. While problems are inherent in any computer software program, the response and coordination between these two entities is difficult. We will continue to address problems, but cannot guarantee results when other entities are so integrally involved.

Persons Responsible: Director of Financial Aid
Date of Projected Completion: Immediately

Finding #15:
NCTC did not verify financial aid awarded to financial disbursed to students.

We agree with the finding.

The financial aid office and business office will work cooperatively to reconcile financial aid disbursed to students. The business office's Financial Aid Disbursed Report will be run quarterly and be reconciled to the financial aid office's SAFE report of financial aid disbursed. A reconciliation of the PELL, Minnesota State Grant, SEOG and Perkins accounts for 1996/97 is in the process of being finalized.

Persons Responsible: Director of Financial Aid and Business Manager
Date of Projected Completion: Immediately.

Finding #16:
NCTC did not adequately separate duties over work study and emergency loans.

We agree with the finding.

Separation of work study payroll duties was implemented the week of July 28, 1997. Financial aid will continue to award work study funds. Responsibility for collecting and processing work study time sheets has been given to the Human Resources Department. Responsibility for receipt and disbursement of work study checks has been given to the business office. The financial aid office will continue to reconcile the work study accounts.

Finding #16 continued

Emergency loan duties were transferred to the college counselors in the spring of 1997 in order to remove it from the financial aid office. After reviewing the change with the auditors, we have changed the process, effective July 22, 1997, in order to provide for more separation of duties. In the future, counselors will authorize emergency loans. The business office will cut the check, enter the account into the accounts receivable system and collect repayment. Outstanding accounts will be turned over to Minnesota Collection Enterprise in a timely manner.

Persons Responsible: Director of Financial Aid for separation of work study duties.
Date of Projected Completion: Completed
Persons Responsible: Business Manager for separation of duties for emergency loans.
Date of Projected Completion: Immediately

Finding #17:
NCTC made financial aid overpayments to several students.

We agree with the finding.

Through the tie-out and reimbursement process, the college has already repaid the $142 to MHESO for a Minnesota State Grant released to a student in error. The college will work to make other repayments to appropriate agencies. The college will also seek repayments from persons where it is found to be appropriate.

Persons Responsible: Director of Financial Aid and President
Date of Projected Completion: As soon as possible, but no later than November 1, 1997

Finding #18:
NCTC did not properly control cash for federal financial aid activities.

We agree with the finding.

The college will establish procedures to safeguard financial aid funds and ensure compliance with applicable requirements.

Persons Responsible: Business Manager and Director of Financial Aid
Date of Projected Completion: Immediately.

Please feel free to contact me if you have any questions or concerns regarding these responses.

Sincerely,

Orley D. Gunderson/cc

Dr. Orley D. Gunderson
President

ODG:cc\response