

# **Inver Hills Community College**

## **Financial Audit**

**For the Period July 1, 1995, through June 30, 1997**

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**November 1997**

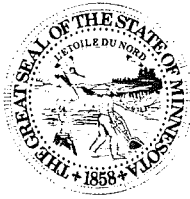
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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-54**





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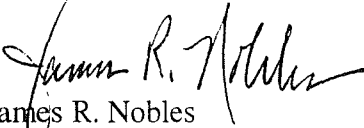
Members of the Minnesota State Colleges and Universities Board of Trustees


Dr. Cheryl Frank, Interim President  
Inver Hills Community College

We have audited Inver Hills Community College for the period July 1, 1995, through June 30, 1997. Our audit scope included: tuition and fees, payroll, state student aid, private student aid, and book store operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1997. The following Summary highlights our audit objectives and conclusions. We discuss our objectives and conclusions 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 Inver Hills 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 Inver Hills Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on November 6, 1997.

  
James R. Nobles  
Legislative Auditor

  
Claudia Gudvangen, CPA  
Senior Audit Manager

End of Fieldwork: August 15, 1997

Report Signed On: October 31, 1997



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

1st Floor Centennial Building

658 Cedar Street • St. Paul, MN 55155

(612)296-1727 • FAX (612)296-4712

TDD Relay: 1-800-627-3529

email: auditor@state.mn.us

URL: <http://www.auditor.leg.state.mn.us>

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## Inver Hills Community College

### Financial Audit

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### Background Information

Inver Hills Community College 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. Inver Hills Community College is a two-year college. Dr. Steven Wallace served as president of the college until July 1997. Dr. Cheryl Frank is currently serving as acting president.

### 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, bookstore revenues and expenditures, and student financial aid for the period July 1, 1995, through June 30, 1997.

We concluded that Inver Hills Community College 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, enter certain financial transactions into the MnSCU accounting system correctly, reconcile local bank accounts to MnSCU accounting on a timely basis, and did not delete system access for some former employees. We also determined the college's Foundation was not subject to an audit as required by the agreement with the school.

Other findings discussed in the audit report included improving controls over tuition and bookstore receipts, improving the separation of duties over payroll functions, and verifying the accuracy of payroll transactions. We also recommended that the transfer of bookstore profits to the college's General Fund should be based on a rational and systematic basis. In our review of federal financial aid, we found one overpayment.

Inver Hills Community College concurred with the audit report's findings and recommendations. The college indicated that it has already taken corrective action on several areas as explained in their response.



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### **Audit Participation**

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

Claudia Gudvangen, CPA	Senior Audit Manager
Tom Donahue, CPA	Audit Manager
Pat Ryan	Auditor-In-Charge
Susan Kachelmeyer, CPA	Auditor
Steve Carr	Intern

### **Exit Conference**

The following staff from Inver Hills Community College and the MnSCU system office participated in the exit conference held on October 28, 1997:

#### **MnSCU System Office:**

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

#### **Inver Hills Community College:**

Dr. Cheryl Frank	Interim President
Larry Margolis	Director of Administrative Services





# Inver Hills Community College

## Chapter 1. Introduction

Inver Hills Community College 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. Inver Hills Community College is a two year community college located in Inver Grove Heights, Minnesota. It was established in 1970. The college serves approximately 4,400 students, of which 60 percent attend on a part-time basis. The college is accredited by the North Central Association of Colleges and Secondary Schools. Dr. Steven Wallace served as the president of the college until July 1997. Dr. Cheryl Frank is currently serving as the acting president.

Inver Hills Community College receives funding for its operations from two major sources: state appropriations allocated by the system office, and tuition and fee revenues. Table 1-1 shows the college's General Fund financial activity by type for the audit period.

**Table 1-1**  
**General Fund Financial Activity**

	<u>1996</u>	<u>1997</u>
Sources:		
State Appropriation	\$ 7,174,290	\$ 7,357,759
Carry Forward	421,147	775,661
Tuition and Fees (Net of Refunds)	5,753,005	5,825,135
Other Revenue	<u>621,527</u>	<u>684,413</u>
Total Sources	<u>\$13,969,969</u>	<u>\$14,642,968</u>
Uses:		
Payroll	\$11,177,149	\$11,459,666
Other	<u>2,017,159</u>	<u>2,540,833</u>
Total Uses	<u>\$13,194,308</u>	<u>\$14,000,499</u>

Source: MnSCU accounting records.

In addition, the college owned and operated a bookstore which generated revenues of approximately \$1.4 million during fiscal year 1996.

Inver Hills Community College is affiliated with the Inver Hills Community 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 had a fund balance of \$59,933 at June 30, 1996. The fund balances include both restricted and unrestricted funds. The financial statements of the foundation have not been audited by an external auditor.

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## Chapter 2. Financial Management

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### *Chapter Conclusions*

*Inver Hills Community College operated within its available resources. Generally, the college properly recorded its State Treasury account financial activities on the MnSCU and MAPS accounting systems. The college accurately recorded its local accounts financial activities on an internal accounting software package, and periodically posted summarized local account activity to MnSCU accounting. However, the college did not accurately post certain local account financial transactions to MnSCU accounting. In addition, local bank accounts were not reconciled to MnSCU accounting on a regular basis. The college began accounting for all of its local accounts on the MnSCU accounting system on July 1, 1997. The college did not delete system access for some former employees. In addition, the college's foundation had not been audited.*

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MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Inver Hills Community College and all universities and colleges based on an allocation formula. In addition, the college, 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 business systems to manage its financial operations. MnSCU requires each college and university to use MnSCU accounting to record all financial activities, including State Treasury account financial activities and local bank account financial activities maintained outside the State Treasury.

The state of Minnesota also implemented a new computerized accounting system and a new personnel/payroll system on July 1, 1995. The state's accounting system (MAPS) records financial activities for all state agencies. MnSCU institutions use MnSCU accounting to initiate transactions for funds in the State Treasury. These MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS also generates warrants for State Treasury expenditures.

MnSCU campuses also administer funds in local bank accounts, separate from the State Treasury. Inver Hills Community College currently maintains eight local bank accounts: three savings accounts and five checking accounts. One of the local checking accounts, the Auxiliary Enterprises Change Account, served as the college's state depository account and link to the State Treasury. Inver Hills Community College deposited its tuition and

## **Inver Hills Community College**

fee receipts into this local bank account. All receipts that are not authorized to be outside the State Treasury, such as tuition, are transferred electronically to the State Treasury.

Although Inver Hills Community College had utilized the MnSCU accounting system during the audit period for its State Treasury account financial activities, it had utilized Quicken software to record and track much of its local accounts financial activity. On a periodic basis, the college summarized and posted its local account financial activities to MnSCU accounting. Inver Hills Community College plans to use MnSCU accounting exclusively for all local accounts in fiscal year 1998.

### **Audit Objectives and Methodology**

Our review of Inver Hills Community College's overall financial management focused on the following questions:

- Did Inver Hills Community College operate within its available resources?
- Did Inver Hills Community College properly account for and control its local bank accounts?
- Did Inver Hills Community College properly record its financial activities 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 accounts and the programs included in our audit scope. We reviewed MnSCU transactions posted to the accounting records to determine if Inver Hills Community College properly recorded revenue and expenditure transactions to MnSCU accounting for both State Treasury activities and its local activities.

### **Conclusions**

Inver Hills Community College operated within its available resources. Generally, the college properly recorded its State Treasury account financial activities on the MnSCU and MAPS accounting systems. The college accurately recorded its local accounts financial activities on an internal accounting software package and periodically posted summarized local account activity to MnSCU accounting. However, the college did not accurately post certain local account financial transactions to MnSCU accounting, as explained in Finding 1. In addition, local bank accounts were not reconciled to MnSCU accounting on a regular basis, as discussed in Finding 2. The college began accounting for all of its local accounts on the MnSCU accounting system on July 1, 1997. Inver Hills Community College did not delete system access for some former employees, as explained in Finding 3. In addition, the college's foundation had not been audited, as explained in Finding 4.

## **Inver Hills Community College**

### **1. Inver Hills Community College did not accurately record certain local account financial transactions on MnSCU accounting.**

Certain revenue and expenditure amounts were overstated on the MnSCU accounting system. Payments from credit card companies for tuition are received through a wire transfer and directly deposited into the All College Account, a local bank account. Since this account is not the State Treasury sweep account, the business office draws a check against the account and deposits it into the Auxiliary Enterprises Change Account, the sweep account. The business office posts the deposit to MnSCU accounting as "other income" and to the All College Account as "other fees."

The Inver Hills Community College bookstore depends on change funds for rush periods and book buybacks. The business office posts the cash withdrawn from the Inver Hills Community College Bookstore, a local account, to MnSCU accounting as "fees," and posts the return of the funds to the local account as "other income."

These accounting transactions resulted in overstating local account revenues and expenditures in MnSCU accounting. Inver Hills Community College should use balance sheet accounts on MnSCU accounting to properly reflect the type of financial transaction taking place.

The use of numerous local bank accounts has many inefficiencies. The college has to account for specific financial activities and initiate bank transfers or write checks to move funds between accounts. Additionally, each account requires a separate monthly bank reconciliation to ensure that the accounting system balance agrees with the bank balances. The college should consider consolidating its bank accounts and using MnSCU accounting to track specific financial activities.

#### *Recommendations*

- *Inver Hills Community College should accurately enter local account financial transactions into MnSCU accounting.*
- *Inver Hills Community College should consider consolidating checking accounts and utilizing MnSCU accounting to track specific financial activities.*

### **2. Inver Hills Community College did not reconcile local bank account cash balances to MnSCU accounting on a timely basis.**

The college's local bank account cash balances were reconciled to Quicken cash balances on a monthly basis; however, cash balances on MnSCU accounting were only reconciled annually at the end of the fiscal year. We noted that many local bank account cash balances reported on MnSCU accounting were in error. For example, MnSCU accounting showed a \$1.47 million negative cash balance as of July 16, 1997, for the college bookstore. In addition, the bookstore also showed a negative \$1.3 million in accounts payable as of July 16, 1997. These errors occurred in recording transactions to MnSCU accounting. The failure to reconcile MnSCU accounting cash balances undermines the accuracy and reliability of the accounting information presented by the system.

## Inver Hills Community College

### *Recommendation*

- *Inver Hills Community College should reconcile local bank accounts to MnSCU accounting cash balances on a monthly basis.*

### **3. Inver Hills Community College did not delete access to the MnSCU accounting system.**

Our review of security over the MnSCU accounting system found that Inver Hills Community College did not delete security clearances for some staff no longer employed by the college. We were told the college did not have a system in place to delete security clearances of staff leaving college employment.

### *Recommendation*

- *Inver Hills Community College should develop procedures to ensure that access to computer systems is deleted when employees leave the college.*

### **4. The Inver Hills Community College Foundation has not had an independent audit of its financial activities.**

The Inver Hills Community College Foundation's financial activities had not been audited for fiscal years 1996 or 1997. We were told that the Foundation had never been audited. The agreement between the college and the Foundation requires the Foundation to have an annual external audit of its operations by an accountant qualified to perform such audit oversight. In addition, the Foundation bylaws also state the Foundation will have an annual audit of its financial records.

### *Recommendation*

- *Inver Hills Community College should direct the Foundation to have an annual audit of its financial activities.*

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## Chapter 3. Tuition and Fee Revenue

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### *Chapter Conclusions*

*Except for inadequately safeguarding its tuition and fee revenues, Inver Hills Community College generally designed and implemented internal controls that provided reasonable assurance that the appropriate tuition and fees were collected and accurately reported in the accounting records and that collections were in compliance with applicable legal provisions and policy.*

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As shown in Table 1-1, Inver Hills Community College collected approximately \$11.5 million in tuition and fees during the audit period. Tuition revenues are entered onto the College Information System (CIS), which maintains registration and accounts receivable information on each student. CIS is programmed to interface with MnSCU accounting. As a result, when a tuition payment was processed on the CIS system it also posted to MnSCU accounting as tuition. Resident tuition for the 1995-96 and 1996-97 school year was \$42.25 and \$43.85 per quarter credit respectively, plus miscellaneous fees. The tuition for nonresident students for the same time period was \$84.50 and \$85.45 per quarter credit, plus miscellaneous fees.

The college also provided instructors and course materials for inmates at Twin City area prisons under a contract with the Department of Corrections. Inver Hills Community College billed the Department of Corrections for the instructors actual salary and travel expenses related to the courses taught at the prisons. The college collected \$200,000 in fiscal year 1996 and \$255,000 in fiscal year 1997 for this program.

### **Audit Objective and Methodology**

Our review of Inver Hills Community College's tuition and fee revenues focused on the following question:

- Did Inver Hills Community College design and implement internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and policy provisions?

To answer this question, we interviewed college employees to gain an understanding of the controls over the billing, collecting, depositing, and recording of tuition and fee revenues. We reviewed student registration and billing records and MnSCU accounting records to determine if the college charged students the appropriate tuition and fee rates, collected the amounts, and properly recorded revenue 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).

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## Conclusion

Except for an inadequate system in place to safeguard its tuition and fee revenues, as further explained in Finding 5, the college generally designed and implemented internal controls that provided reasonable assurance that the appropriate tuition and fees were collected and accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and policy.

### **5. Inver Hills Community College did not adequately safeguard tuition and bookstore revenues.**

The college did not have an adequate system of controls in place to safeguard its tuition and bookstore revenues. In addition, there was not a clear line of accountability over tuition receipts as the process moved from collection to deposit. During the audit period, the college did not have a safe in either the bookstore or the business office to secure its receipts.

We reviewed the college's process of depositing tuition and bookstore receipts and noted the following weaknesses:

- Cashiers in the business office were responsible for collecting and processing tuition receipts. However, they did not perform a cash count before turning the receipts over to the business manger.
- The college's business manager, or business office supervisor, personally transported a locked bank bag containing the daily tuition and fee receipts to the college's local bank where it was placed in a night depository for safekeeping. The next morning the bank bag containing the receipts was retrieved and transported back to the business office for deposit processing.
- Bookstore staff delivered receipts from the previous day to the business office in the morning for deposit. These receipts were kept in an unsecured room within the business office until the armored car service arrived around noon each day.

The weaknesses noted above increase the risk that tuition and fee receipts and bookstore revenues may be misappropriated through theft or robbery. In addition, current procedures may subject college personnel to possible physical harm in the case of a potential robbery.

The bookstore purchased a safe during the time the auditors were on site. Bookstore receipts are now kept locked overnight until they are brought to the business office in the morning to be picked up for deposit. However, we noted that the bookstore receipts are not adequately secured in the business office until picked up by the armored car service.

On September 22, 1997, subsequent to the end of our field work but prior to the issuance of this report, a bank bag containing tuition and fee receipts was stolen out of an unlocked drawer in a room in the business office. We were informed that the bank bag contained \$40,050, of which \$3,016 was cash.



## **Inver Hills Community College**

For both security and personal safety reasons, tuition and fee receipts should not be transported to the bank each night for safekeeping. Inver Hills Community College needs to equip its business office with a safe. All funds, tuition, fees, and bookstore revenues should be kept in a secured place until they are turned over to the armored car service.

To increase cashier accountability over tuition and fee receipts, cashiers should perform a cash count at the end of the day before the receipts are turned over to another employee. Any discrepancies should be reconciled or identified at that time.

### *Recommendation*

- *The college should develop procedures to better account for and safeguard its tuition and fee receipts and bookstore revenues.*

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## Chapter 4. Payroll and Personnel

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### *Chapter Conclusions*

*Inver Hills Community College did not design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately recorded in the accounting records and complied with legal provisions, including bargaining unit agreements and management's authorization. We found that the college did not have a proper separation of duties over the personnel and payroll functions and that the accuracy of payroll transactions for its classified employees were not verified.*

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Payroll represents the college's largest expense. Inver Hills Community College expended approximately \$22.6 million in payroll related costs during the audit period. This represented approximately 66 percent of total expenditures. The college employees are represented by several unions and bargaining agreements. These include:

- The American Federation of State, County and Municipal Employees (AFSCME)
- The Minnesota Association of Professional Employees (MAPE)
- The Middle Management Association (MMA)
- The Minnesota Community College Faculty Association
- The Excluded Administrators Plan

During fiscal year 1996, the college used the state's Personnel/Payroll System (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll transactions. Inver Hills Community College began using the state's new SEMA4 payroll system in October 1996. The college enters payroll transactions for all classified employees. The MnSCU system office enters payroll transactions for unclassified employees.

### **Audit Objectives and Methodology**

Our review of Inver Hills Community College's payroll focused on the following questions:

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

To answer these questions, we interviewed the college's payroll staff to gain an understanding of

## Inver Hills Community College

the controls over payroll expenditures. We tested a sample of payroll transactions to determine if they were properly authorized, processed, and recorded. We also reviewed payroll expenditures to determine if Inver Hills Community College complied with material finance-related legal provisions and bargaining unit agreements.

### Conclusions

Inver Hills Community College did not design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records, and that they complied with legal provisions, including bargaining unit agreements and management's authorization. As discussed in Findings 6 and 7, the college did not have a proper separation of duties between its personnel and payroll functions, and the accuracy of payroll transactions for its classified employees was not verified.

#### **6. Inver Hills Community College did not adequately separate duties over personnel and payroll functions.**

The personnel and payroll functions at Inver Hills Community College are not adequately separated. The college employs a human resource director and a human resources technician to process payroll and personnel transactions. Personnel transactions are entered and processed in the SCUPPS system while payroll transactions are processed on the SEMA4 system. Both of these employees have access to enter both personnel transactions and payroll transactions into these systems. We were told the human resources technician performs most of the data entry into both of these systems. Access to both SCUPPS and SEMA4 could permit employees to make unauthorized personnel changes to SCUPPS and use those transactions to perform unauthorized payroll transactions in SEMA4. In order to prevent and detect errors and irregularities from occurring, the college should separate the personnel and payroll data entry function. One employee should not have access to perform both personnel and payroll transactions.

##### *Recommendation*

- *The college should separate duties over payroll and personnel functions.*

#### **7. Inver Hills Community College did not verify the accuracy of payroll transactions.**

The college did not reconcile its classified employee payroll expenditures as shown on SEMA4 to SCUPPS. MnSCU system policy requires that payroll data on the SEMA4 system be reconciled to SCUPPS each pay period. The college payroll staff mistakenly thought the system office was performing the reconciliation for the college. As a result, the reconciliation was not being performed. The system office staff indicated that they were performing this reconciliation for unclassified employees only. To ensure the accuracy of payroll expenditures, SEMA4 payroll expenditures should be reconciled to SCUPPS data for each pay period.

##### *Recommendation*

- *Inver Hills Community College should reconcile SEMA4 to SCUPPS each pay period.*

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## Chapter 5. Bookstore Operations

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### *Chapter Conclusions*

*Inver Hills Community College designed and implemented internal controls that provided reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records. Bookstore disbursements were also properly authorized, documented, and accurately recorded in the accounting records. However, Inver Hills Community College did not establish a systematic and rational basis on which to determine the amount of bookstore profits to be transferred to the college's General Fund.*

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Inver Hills Community College bookstore owns and operates its bookstore. It sells new and used books, computers, computer software, school supplies, apparel, and other miscellaneous items. Book sales account for about 90 percent of total sales.

The bookstore processed its sales through cash registers. The cash registers were linked to a point-of-sale software package that records all of the sales activity entered. The students could pay in the form of cash, check, credit card, or financial aid. At the end of the day, bookstore employees closed out the cash registers, performed cash counts, and printed summary reports from the point-of-sale software system. The receipts were kept overnight in the bookstore manager's office. The following morning, the bookstore manager reconciled the receipts to the system's sales report totals and brought the receipts to the business office for deposit. (As discussed in Chapter 3, Finding 5, the receipts are not adequately safeguarded in the business office). A business office employee posted the bookstores sales transactions to Quicken and MnSCU accounting using the summary totals report data.

New and used books are the major purchases of the bookstore. The bookstore placed all the orders for inventory items. In October 1996, the bookstore began issuing purchase orders using the MnSCU accounting system. When items were received and reconciled to the purchase order, the invoice was brought to the business office for payment. Business office staff verified the amount and item description and processed the payment. Until October 1996, the business office used Quicken to write checks. Since then, the college has used the MnSCU accounting check writer program.

The bookstore transfers a portion of its profits to the college's General Fund account as a dedicated receipt. It was not clear whether this transfer was intended to be a charge for administrative costs, as discussed in Finding 8. The transfer for each of fiscal years 1996 and 1997 was \$55,000.

## Inver Hills Community College

Table 5-1 summarizes the bookstore income and expense statement for fiscal year 1996. As of October 1, 1997, this statement had not been prepared for fiscal year 1997.

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**Table 5-1**  
**Statement of Income -- Bookstore**  
**Fiscal Year 1996**

Revenue:	
Net Sales	\$1,378,536
Other revenue	<u>81,833</u>
Total Revenue	<u>\$1,460,369</u>
 Cost of Goods Sold	 <u>\$1,125,826</u>
 Gross Margin	 <u>\$ 334,543</u>
Expenses:	
Payroll	\$ 201,270
Transfer to General Fund (Note 2)	55,000
Other Operating Expenses	<u>58,150</u>
Total Expenses	<u>\$ 314,420</u>
 Net Income	 <u>\$ 20,123</u>

Note 1: Our objectives did not include providing an opinion on the bookstore financial statements. These amounts are presented for informational purposes only.

Note 2 See Finding 8.

Source: Bookstore financial records as adjusted by the auditor.

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## Audit Objectives and Methodology

Our review of Inver Hills Community College's bookstore operations focused on the following questions:

- Did Inver Hills Community College design and implement internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately reported in the accounting records?
- Did Inver Hills Community College design and implement internal controls to provide reasonable assurance that bookstore expenses were reasonable, properly authorized, and accurately reported in the accounting records?

To answer these questions, we interviewed bookstore staff to gain an understanding of the bookstore's operations and determined how revenues and expenses were processed. We reviewed the controls over the bookstore revenue and expense processes and inventories. We sampled bookstore revenues generated by daily sales activity. We also performed detailed tests of bookstore expenses.

# Inver Hills Community College

## Conclusions

Inver Hills Community College designed and implemented internal controls to provide reasonable assurance that bookstore revenues were complete, promptly deposited, and accurately reported in the accounting records. Also, bookstore expenditures were properly authorized, documented, and accurately recorded in the accounting records. Bookstore inventory was adequately controlled. However, as explained in Finding 8, the college did not establish a systematic and rational basis on which to transfer bookstore profits to the General Fund.

### **8. Inver Hills Community College did not have a systematic or rational basis for transferring bookstore profits to the General Fund.**

Inver Hills Community College transferred \$55,000 in fiscal year 1996 and again in fiscal year 1997 from the bookstore profits to the college's General Fund operating account. The basis for these transfers was not evident. The operating account is used to fund the general operations of the college. We were told that the college president requested the Director of Administrative Services to determine how much was available in the bookstore's account to transfer to the General Fund. The bookstore's internal policies provide that "...Any profits generated will be used to reduce prices, fund student scholarships, and meet various instructional needs." The funds transferred from the bookstore to the General Fund were not earmarked for these purposes. As a result, it was not possible to determine if the amounts transferred were spent according to bookstore policy.

We found no documentation or support for determining the amount of the transfer to the General Fund. It is not apparent to the business office exactly what, if any, General Fund direct or indirect costs may be charged to the bookstore.

### *Recommendations*

- *Inver Hills Community College should work with the MnSCU system office to determine a reasonable amount that the bookstore should reimburse to the General Fund for space rental, maintenance expense, and other support costs.*
- *In addition, Inver Hills Community College should develop procedures to ensure that bookstore profits are used according to its policy.*

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## Chapter 6. Student Financial Aid

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### *Chapter Conclusions*

*Inver Hills Community College generally designed and implemented internal controls that provided reasonable assurance that it managed its student financial aid programs in compliance with all applicable laws and regulations. We found that for the items tested, the college generally had an effective process for packaging, awarding, and disbursing student financial aid. The college complied with applicable general federal requirements over the management of cash and the timely and accurate reporting of federal student financial aid activity. However, we noted that the college overpaid federal financial aid to one student. In addition, the college accurately reported both its state and private student financial aid programs in the accounting records.*

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### Federal Student Financial Aid

Inver Hills Community College participated in the following federal student financial aid programs administered by the U.S. Department of Education, as shown in Table 6-1.

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**Table 6-1**  
**Federal Student Financial Aid Activity**  
**Fiscal Year Ended June 30, 1997**

<u>CFDA Number</u>	<u>Title IV Programs</u>	<u>Totals</u>
84.032	Federal Family Education Loan (FFEL)	\$2,715,856
84.063	Federal Pell Grant (PELL)	\$1,038,349
84.038	Federal Perkins Loan (FPL)	\$ 52,200
84.007	Federal Supplemental Opportunity Grant (FSEOG)	\$ 51,034
84.033	Federal Work-Study (FWS) Program	\$ 95,671
<u>Total Federal Student Financial Aid</u>		<u>\$3,953,110</u>

Source: College Information System (CIS) "A/R Financial Aid Disbursed Report Summary" for fiscal year 1997 as reconciled to the student financial aid system (SAFE) by college business office. Adjusted as of 6/30/97. Federal Work Study expenditures from the college financial aid office staff.

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The U.S. Department of Education developed federal regulations for each of the Title IV federal student financial aid programs. With the exception of the Federal Unsubsidized Stafford Loan and Federal PLUS Loan programs (both of which are part of the Federal Family Education Loan Program), a student must demonstrate financial need to be eligible for the financial aid listed in Table 6-1. Financial need is the difference between the student's cost of attendance budget as set

## **Inver Hills Community College**

by the college's financial aid office and the expected family contribution (EFC) as determined by the U.S. Department of Education. Students supplied data to make EFC determination when they filled out the Free Application for Federal Student Aid (FAFSA).

The first source of financial aid assistance was the Federal Pell Grant. The U.S. Department of Education provided Federal Pell Grant funds to Inver Hills Community College based on the number of eligible students enrolled. All eligible students received Federal Pell Grant awards. The maximum Federal Pell Grant award per student was \$2,470 for the 1996-97 academic year.

The Federal Family Education Loan (FFEL) program included subsidized and unsubsidized Stafford loans for the student and unsubsidized PLUS loans for the parent(s). Private lenders provided the principal for these loans. The federal government guaranteed the loans and promised to reimburse any lender in the event of default or cancellation. For subsidized Stafford loans the federal government paid interest to the lender while the student attended school.

Under the Federal Perkins Loan (FPL) program the college provided new loans to students as MnSCU received payments on previous Inver Hills Community College Perkins Loans. The MnSCU System Office managed the collection, repayment, and waiver process for the college's Perkins Loans.

Inver Hills Community College also participated in the Federal Educational Opportunity Grant (FSEOG) program and the Federal Work Study (FWS) program for fiscal year 1997.

### **State and Private Student Financial Aid**

The college also awarded financial aid under the following programs: Minnesota State Grants (STATE), State Work Study (SWS), Non AFDC Child Care Grants, and Nurses of Color (NURCO) Grants. Inver Hills Community College basically uses the same process as that used for federal financial aid. The Higher Education Services Office (HESO) determined the eligibility criteria for all state grants. The eligibility criteria was part of the Minnesota module installed on the college's financial aid packaging software. Students filled out an additional application for each of these grants and submitted the application to the college. The college then determined eligibility and awarded the grants.

The State Educational Loan (SELF) program provided long-term, low interest educational loans to almost all the student's who requested it. The demand for this type of loan was low, however, because it is always in repayment status and there is no grace period.

The college also disbursed financial aid for students who received private scholarships. The granting organization determined eligibility and awarded private scholarships. The grantors send scholarship funds to the college. The college disbursed scholarship funds using the same process as other financial aid.

Inver Hills Community College participated in the following state and private student financial aid programs shown in Table 6-2.

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**Table 6-2**  
**State and Private Student Financial Aid Activity**  
**Fiscal Year Ended June 30, 1997**

<u>State Programs</u>	<u>Totals</u>
State Grant (STATE)	\$348,079
State Work Study (SWS)	48,852
Non AFDC Child Care Grant (CHILD)	55,855
Nurses of Color Grant (NURCO)	9,000
State Educational Loan Program (SELF)	<u>8,525</u>
<u>Total State Student Financial Aid</u>	<u>\$470,311</u>
<u>Private Programs</u>	
Miscellaneous Scholarships (SCHOL)	\$ 58,564
Indian Scholarships (INDSC)	<u>9,319</u>
<u>Total Private Student Financial Aid</u>	<u>\$ 67,883</u>
<u>Total State and Private Student Financial Aid</u>	<u>\$538,194</u>

Source: College Information System (CIS) "A/R Financial Aid Disbursed Report Summary" for fiscal year 1997 as reconciled to the student financial aid system (SAFE) by college business office. Adjusted as of 6/30/97. State Work Study expenditures from the college financial aid office staff.

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## **Audit Objectives and Methodology - Federal Student Financial Aid**

Our review of the federal student financial aid programs identified in Table 6-1 for the period July 1, 1996, through June 30, 1997, focused on the following questions:

- Did Inver Hills Community College design and implement internal controls to provide reasonable assurance that it managed its federal student financial aid programs in compliance with applicable general and specific program requirements?
- Did Inver Hills Community College comply with applicable legal requirements over the management of federal cash and provide accurate reporting of financial aid activity?

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, MnSCU accounting system reports, and financial reports submitted to the U.S. Department of Education. Finally, we tested controls over compliance for determining student eligibility and awarding, packaging, and disbursing financial aid. We also tested controls over compliance for managing cash and reporting expenditures to the federal government.

# **Inver Hills Community College**

## **Conclusions**

We found that Inver Hills Community College generally designed and implemented internal controls that provided reasonable assurance that it managed its federal student financial aid programs in compliance with applicable general and specific program requirements. In addition, for the student financial aid items tested, disbursements were properly authorized for eligible students and accurately reported in the accounting records. The college complied with applicable general federal requirements over the management of cash and the timely and accurate reporting of federal student financial aid activity. However, as discussed in Finding 9, we noted that the college overpaid financial aid to one student.

### **9. Inver Hills Community College overpaid need-based financial aid to one student.**

Inver Hills Community College overpaid a student \$875 in a Federal Subsidized Stafford Loan. The student received \$3,000 in total grants from two Indian scholarships during the Winter and Spring quarters of fiscal year 1997. Total financial aid disbursed did not exceed the student's cost of attendance. However, the college did not reduce the Subsidized Stafford Loan disbursement for Spring quarter to avoid overpaying the student for 1996-97 need-based financial aid. As a result, the Spring quarter disbursement of \$875 represented an overpayment.

#### *Recommendation*

- *Inver Hills Community College should work with the U.S. Department of Education to resolve the \$875 Federal Subsidized Stafford Loan overpayment.*

## **Audit Objectives and Methodology - State and Private Student Financial Aid**

Our review of Inver Hills Community College's state and private student financial aid focused on the following question:

- Did Inver Hills Community College design and implement internal controls to provide reasonable assurance that it accurately reported state and private student financial aid in the accounting records?

To answer this question, we interviewed college personnel and reviewed state student financial aid and private scholarship documentation. We tested state student financial aid and scholarship records to verify that the college properly recorded payments in the accounting records.

## **Conclusions**

Inver Hills Community College designed and implemented internal controls that provided reasonable assurance that it accurately reported state and private student financial aid in the accounting records.

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## Status of Prior Audit Issues

### As of August 15, 1997

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#### Most Recent Audits

Legislative Audit Report 91-40 covered the three fiscal years ended June 30, 1990. The audit scope included tuition and fee revenue, federal revenue, bookstore revenue, employee payroll expenditures, and federal student financial aid. The report contained six audit findings. All six findings have been resolved.

We audit compliance with federal student financial aid guidelines annually as part of the Statewide Single Audit. We review internal controls over student financial aid at the individual institutions on a cyclical basis. The June 1996, Legislative Audit Report 96-24 included two issues related to Inver Hills Community College. Both findings have been resolved.

#### State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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# INVER HILLS COMMUNITY COLLEGE

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October 27, 1997

Mr. James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
1st Floor South  
Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

Dear Mr. Nobles:

In response to the recent audit findings and recommendations contained in the financial audit report of Inver Hills Community College for the period July 1, 1995 through June 30, 1997, the following actions will be taken:

## Chapter 2. Financial Management

Finding 1. Inver Hills Community College did not accurately record certain local account financial transactions on MnSCU accounting.

### Recommendations:

Inver Hills Community College should accurately enter local account financial transactions into MnSCU accounting.

Inver Hills Community College should consider consolidating checking accounts and utilizing MnSCU accounting to track specific financial activities.

### Response:

The College agrees with the finding and is initiating several steps to implement the recommendations. In the entering of local account financial transactions into MnSCU accounting, for most accounts, we will discontinue using revenue and expense object codes and instead use asset and liability object codes. Larry Margolis Director of Administrative Services, will review current account coding by November 7, 1997.

2500 80 Street East, Inver Grove Heights, MN 55076-3224 ■ 612.450.8500

Disabled Student Services Office: 450-8628, Voice: 450-8369, TTY

*Inver Hills is an equal opportunity educator/employer*

Based upon that review, Rose Davis Business Office Supervisor, will supervise the processing of any needed object code corrections by November 21, 1997.

In those accounts where we wish to track receipts and expenses, we will process a reversing entry prior to the end of the fiscal year so that we do not overstate revenue and expenses.

On the recommendation to consolidate checking accounts, we will work towards that goal during FY98. Immediately, Rose Davis will reduce the number of times we move funds between bank accounts. Until we begin using the new student information and receivable system being developed, we will continue having separate bank accounts for student refunds and for issuing financial aid. These two types of transactions generate checks from the CIS student system rather than MnSCU accounting.

Finding 2. Inver Hills Community College did not reconcile local bank account cash balances to MnSCU accounting on a timely basis.

Recommendation:

Inver Hills Community College should reconcile local bank accounts to MnSCU accounting cash balances on a monthly basis.

Response:

The College concurs with this recommendation. In implementing this recommendation, the Business Office staff will be working with MnSCU accounting staff as a first step in moving our reconciliation process away from Quicken and to MnSCU accounting. Our goal is to be proficient with the reconciliation process by 12/31/97. Rose Davis will periodically review progress towards this goal with Larry Margolis. This will support our effort to consolidate checking accounts.

Finding 3. Inver Hills Community College did not delete access to the MnSCU accounting system.

Recommendation:

Inver Hills Community College should develop procedures to ensure that access to computer systems is deleted when employees leave the college.

Response:

The College agrees with the above recommendation. As a result of the audit, we have deleted those terminated individuals who previously had access to our computer systems. In the future, Jon Brimacombe, the Director of Advanced Technology, will be responsible for ensuring access to computer systems is deleted when employees leave the College.



John Pogue, Director of Financial Aid, will provide information on terminated student employees and Kitty Widmar, Director of Human Resources, will provide information on terminated college employees to Mr. Brimacomb.

In addition, the College's Information Services User Effort team, chaired by Eugene Eddy, Director of Information Management and Research, will periodically review user authorization levels.

Finding 4. The Inver Hills Community College Foundation has not had an independent audit of its financial activities.

**Recommendation:**

Inver Hills Community College should direct the Foundation to have an annual audit of its financial activities.

**Response:**

The College concurs with this recommendation. The requirement for a yearly audit was brought to the Board's attention during its 6/4/97 meeting. At that time, the Foundation Board authorized President Wallace to make arrangements with a firm which had previously offered to conduct the audit. Subsequently, President Wallace resigned with no action taken on this authorization. To follow through on this recommendation, Larry Margolis will request an independent audit at the November, 1997 Foundation Board meeting.

**Chapter 3. Tuition and Fee Revenue**

Finding 5. Inver Hills Community College did not adequately safeguard tuition and bookstore revenues.

**Recommendation:**

The college should develop procedures to better account for and safeguard its tuition and fee receipts and bookstore revenues.

**Response:**

The College agrees with this recommendation. To better safeguard receipts stored in the Business Office, Rose Davis has ordered a safe, access to the safe will be limited to Rose Davis and Larry Margolis (Rose Davis will develop a procedure for safe access in the event both Ms. Davis and Mr. Margolis are unavailable), and all receipts will be stored in the safe overnight. In addition, we will be requiring our night cashiers, Marilyn Fischer and Irene Roy, to perform a cash count prior to storing the funds in the safe at the end of the work day.

The theft on September 22, 1997 has been reported to the Inver Grove Heights police. The police have not yet completed their investigation. Of the \$40,111 stolen, the college expects to recover the \$37,094 in checks (the checks were stamped with a restrictive bank endorsement). Rose Davis has sent letters to all those involved requesting replacement checks. To date, she has collected \$30,357.45 of the checks stolen. In addition, Ms. Davis has personally followed up with those individuals who have not yet replaced their checks.

#### Chapter 4. Payroll and Personnel

Finding 6. Inver Hills Community College did not adequately separate duties over personnel and payroll functions.

##### Recommendation:

The College should separate duties over payroll and personnel functions.

##### Response:

The College agrees that the payroll and personnel functions should be separated. To address this issue, the Business Office, Human Resources Office, President, and MnSCU staff will be meeting the week of November 10, 1997 to review the payroll and personnel functions, determine the proper division of these functions, and implement a solution which provides proper separation of duties. Based upon this assessment, the payroll duties will be shifted either to the Business Office or remain in the Human Resource Office. If the function remains in the Human Resources Office, we will establish a new position to perform that function. We anticipate accomplishing this separation of duties during January, 1998.

Finding 7. Inver Hills Community College did not verify the accuracy of payroll transactions.

##### Recommendation:

Inver Hills Community College should reconcile SEMA4 to SCUPPS each pay period.

##### Response:

The College concurs with this recommendation. The Human Resources staff will work with MnSCU staff to determine the reports to be used in the reconciliation and perform the reconciliation on a biweekly basis beginning no later than December 1, 1997.

#### Chapter 5. Bookstore Operations

Finding 8. Inver Hills Community College did not have a systematic or rational basis for transferring bookstore profits to the General Fund.

**Recommendation:**

Inver Hills Community College should work with the MnSCU system office to determine a reasonable amount that the bookstore should reimburse to the General Fund for space rental, maintenance expense, and other support costs.

In addition, Inver Hills Community College should develop procedures to ensure that bookstore profits are used according to its policy.

**Response:**

The College agrees with both recommendations. Prior to transferring any bookstore funds to the General Fund, Larry Margolis will work with MnSUC staff on determining a reasonable reimbursement rate to charge the bookstore for support. In addition, any profits transferred will be according to a procedure developed which provides proper documentation and rationale.

**Chapter 6. Student Financial Aid**

Finding 9. Inver Hills Community College overpaid need-based financial aid to one student.

**Recommendation:**

Inver Hills Community College should work with the U.S. Department of Education to resolve the \$875 Federal subsidized Stafford Loan overpayment.

**Response:**

The College concurs with the find. John Pogue, Director of Financial Aid, will remind the student of his need to repay all student loans.

We wish to thank the Legislative Auditor's staff for their review and recommendations. If you have any follow-up questions or concerns, please contact Larry Margolis at 450-8522.

Sincerely,



Dr. Cheryl Frank  
Interim President

cc: Chancellor Anderson  
Vice Chancellor King