North Hennepin Community College

Financial Audit
For the Period July 1, 1995, through June 30, 1997

April 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and
Universities Board of Trustees

Ms. Ann Wynia, President
North Hennepin Community College

We have audited North Hennepin Community College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included: tuition and fees, payroll, administrative expenditures, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that North Hennepin Community College complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of North Hennepin Community 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 North Hennepin Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 24, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 27, 1998

Report Signed On: April 20, 1998

SUMMARY

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North Hennepin Community College

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Public Release Date: April 24, 1998 No. 98-27

Background Information

North Hennepin Community College was established in 1966. The college merged with other state universities, community colleges, and technical colleges on July 1, 1995, to form the Minnesota State Colleges and Universities System (MnSCU). The MnSCU Board of Trustees appointed Ms. Ann Wynia as the president of the college effective December 1, 1997.

Our audit scope included a review of tuition and fees, payroll, administrative expenditures, bookstore activities, and institutional work study for the period July 1, 1995, through June 30, 1997. We also audited the administration of the federal student financial aid program for fiscal year 1998.

Conclusions

North Hennepin Community College operated its General Fund activity within available resources. However, the college did not properly monitor certain other financial operations. The college did not evaluate its financial responsibilities and ensure adequate staffing in the business office and in the payroll/personnel division. In addition, the college did not properly record its financial activities on the MnSCU and MAPS accounting systems. The college did not have appropriate controls over certain other financial management functions. The college did not report instances of fraud to the Office of the Legislative Auditor. We are referring one case to the Office of the Attorney General for resolution. In that case, financial aid staff and a student worker falsified a payroll timesheet, and the student was paid for time that was not worked. The college also made other questionable judgments when determining institutional work study eligibility.

The college properly designed controls over tuition and fees, payroll, federal student financial aid, and administrative expenditures. However, we made some recommendations for improvements in these areas. We found that the college allowed a faculty member's salary to exceed the maximum amount authorized by state law. In addition, we have concerns about the bookstore. The college did not accurately record the bookstore financial activities and did not have financial statements to monitor its financial activities. We make several recommendations for improved accountability over bookstore activities.

The college basically agrees with the findings and recommendations in this report. The college has initiated a corrective action plan to resolve the issues.

North Hennepin Community College

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Marla Conroy, CPA	Director of Investigations
John Hirschfeld, CPA	Auditor-In-Charge
Marina Mirman, CPA	Senior Auditor
Steve Johnson, CPA	Senior Auditor
Susan Kong, CPA	Senior Auditor
Terry Hanson	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of North Hennepin Community College and the System Office at the exit conference held on April 9, 1998:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor, Financial Reporting
John Asmussen	Executive Director of Internal Auditing
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting
Chris Halling	Director of Financial Aid

North Hennepin Community College:

Ann Wynia	President
Yvette Jackson	Vice President of Academic and Student Affairs
Dennis Stukenborg	Financial Aid Director
Rick Ellefson	Business Manager
Dawn Belko	Accounting Supervisor

Chapter 1. Introduction

North Hennepin Community College was created in 1966. The college was under the jurisdiction of the State Board for Community Colleges until June 30, 1995. The Minnesota State Colleges and Universities System (MnSCU) began operations on July 1, 1995. MnSCU merged the state universities, the community colleges, and the technical colleges into one common system.

Katherine H. Sloan served as president of the college from August 10, 1994, through July 15, 1996. Dr. Yvette Jackson served as interim president from July 16, 1996, through November 30, 1997. The MnSCU Board of Trustees appointed Ms. Ann Wynia as the president of the college effective December 1, 1997.

The college offers over 80 upper division majors. Majors may be either in general education areas or as part of the first two years of a professional sequence. Work in these areas leads to the degree of Associate in Arts or Associate in Science at North Hennepin and to the bachelor's degree at a four-year college or university. In school year 1996-97, North Hennepin Community College had 3,065 full-time equivalent students enrolled in credit classes. Enrollment in the fall and winter quarters of the 1997-98 school year increased by 3 to 4 percent over the previous year.

Most of the college's programs and services are located on the main campus in Brooklyn Park, Minnesota. North Hennepin also operates the St. Cloud Nursing Program for registered nurses, and provides some classes at the Wright County Center in Buffalo, Minnesota.

The General Fund financial activity for fiscal year 1997 for North Hennepin Community College is shown in Table 1-1. The General Fund activity is funded from state appropriation allocations and tuition and fees. The college also administers financial activities in other fund types, including Special Revenue Funds (federal student financial aid) and Enterprise Funds (bookstore operations). These funds are not included in Table 1-1 because of errors in accounting system information.

We discuss our conclusion on the review of the financial areas in the following chapters.

Table 1-1
General Fund Financial Activity
Budget Fiscal Year 1997

Description	General Fund
Beginning Balance	$ 561,110
Revenue:	
State Appropriation	$ 8,329,154
Tuition and Fees	7,611,087
Other - Note 1	828,309
Total Revenue and Balance Forward	$17,329,660
Expenditures:	
Salaries	$13,137,040
Purchased Services	2,111,157
Supplies	548,655
Equipment	280,699
Other	465,109
Total Expenditures	$16,542,660
Ending Balance	$ 787,000

Note 1: Other revenue includes bookstore transfers of $363,422 related to earnings from 1997 and prior years. The college used these funds for general operating costs such as campus security.

Note 2: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activity not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1997, compensated absence liability is estimated to be $1.25 million.

Source: MnSCU Accounting System General Ledger Accounting Report as of December 16, 1997, Budgetary Basis, as adjusted to reflect the estimated reimbursements due from the Enterprise Fund.

Chapter 2. Financial Management

Chapter Conclusions

North Hennepin Community College operated its General Fund activity within its available resources. However, the college did not properly monitor certain other financial operations. The college did not evaluate its financial responsibilities and ensure adequate staffing in the business office and in the personnel/payroll division. In addition, the college did not properly record its financial activities on the MnSCU and MAPS accounting systems. Finally, a college faculty member was a voting member on the foundation's board, which did not provide an appropriate separation of management functions.

MnSCU receives the majority of its funding for operations from General Fund appropriations and tuition and fees. The MnSCU system office allocates appropriated funds to North Hennepin Community College and all universities and colleges based on an allocation formula.

The statewide accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. Campuses use the MnSCU accounting system to initiate transactions that involve appropriated funds. The MnSCU accounting system feeds these transactions to MAPS through a system interface. MAPS generates state treasury checks for state appropriated expenses. Campuses also administer funds in local bank accounts separate from the state treasury. MnSCU requires that the colleges record all local activities on MnSCU accounting. In addition, the college maintained a separate manual accounting system for financial activity in its local bank accounts.

North Hennepin Community College was part of the Community College System prior to the merger into MnSCU. The Community College System Board Office completed many of the business functions for the college. The MnSCU system office continues to provide administrative support for the college, including some payroll and business functions. However, significant changes may occur in the next year. MnSCU may transfer additional functions to the college. Employees will require additional training and experience before the college can perform the additional responsibilities efficiently and effectively.

Audit Objectives and Methodology

Our review of North Hennepin Community College's overall financial management focused on the following objectives:

- Did the college properly record its financial activities on MnSCU and MAPS accounting systems?

- Did the college properly account for and control local bank accounts?
- Did the college operate within its available resources?
- Did the college have an appropriate operating relationship with related organizations?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for each of the program areas discussed in the following chapters. We also gained an understanding of management controls in place over local bank accounts and the programs included in our audit scope. We reviewed transactions posted to the accounting records to determine if North Hennepin Community College properly recorded revenue and expenditure transactions on MnSCU accounting for both state treasury and local bank accounts. We also reviewed the relationship of the college to its related foundation.

Conclusions

North Hennepin Community College operated its General Fund activity within its available resources. However, the college did not properly monitor certain other financial operations. The college did not evaluate its financial responsibilities and ensure adequate staffing in the business office and in the personnel/payroll division. In addition, the college did not properly record its financial activities on the MnSCU and MAPS accounting systems. Finally, the college did not comply with the voting membership provisions of its contract with the foundation. These issues are discussed in the following findings.

1. The college did not adequately evaluate its staffing needs to ensure proper oversight of its financial activities.

The college did not appropriately monitor certain financial activities. The college operated several financial activities separate from the business office, including the bookstore, continuing education, minority loans, facility rental, and other activities. College management allowed the supervisors of these areas to independently administer the financial activities without proper oversight. In fiscal years 1996 and 1997, the college had declining enrollment, resulting in administrative and faculty layoffs. During this time, the college did not provide adequate staffing to perform key financial oversight functions.

The college did not process financial activities timely, including bank reconciliations, recording of local activities, and transferring funds to the state treasury. Several other problems occurred over a period of years. The college could have detected these problems had college management provided the necessary oversight. The oversight would have reduced the risk and would have helped to prevent the problems discussed in this report.

Following are examples of problems that occurred in specific financial operations.

- The college bookstore did not produce accurate financial statements or reconcile its checking account to MnSCU accounting. (Bookstore issues are discussed in Chapter 5.)

- The continuing education department did not reconcile its receipts to its accounting records, or pursue collection of overdue accounts. (Continuing education issues are discussed in Chapter 3.)

- Financial management did not actively monitor the minority loan activity, resulting in uncollectible loans totaling $6,200 (of the $8,000 in funding) during the six-year period from 1989 to 1995.

- Financial management did not monitor facility rental activities totaling approximately $67,000 annually. During 1996 the college did not bill some renters, and the billing amount for some of those that were billed was incorrect.

- The foundation provided funding for scholarships at the college. However, the business office did not request funding for the scholarships until six weeks after the 1997-1998 winter quarter began. This caused a negative cash balance of $55,619 on MnSCU accounting.

Management did not provide the necessary review to ensure there were adequate controls over these financial activities. Management is responsible for the effective monitoring and recording of the college's financial transactions. Monitoring financial activity includes ensuring that controls are in place and working effectively to prevent or detect errors or theft of state assets.

The MnSCU system office may assign several other financial management responsibilities to the college in fiscal year 1999. The system office is considering transferring its remaining duties related to the payroll/personnel function to the college. The system office also may transfer the purchasing function, MnSCU to MAPS reconciliations, student worker payroll, employee expense transactions, and invoice processing. These new responsibilities will place additional demands on college level staffing.

Recommendation

- *The college should reevaluate its staffing needs to ensure proper oversight over its financial activities.*

2. The college did not properly record certain financial activity on the MnSCU accounting system.

The college did not properly record its financial activities in MnSCU accounting for fiscal years 1996 and 1997, and for the period July 1, 1997, through February 27, 1998. Most of the financial activity not recorded related to the local bank accounts. The college did not record the local activity as it occurred but summarized it on MnSCU accounting at year end. However, errors still existed on the accounting system. Examples of financial activities that the college did not properly record are shown in Table 2-1.

Table 2-1
Financial Activities Not Properly Recorded on MnSCU Accounting
Fiscal Years 1996 and 1997, and Fiscal Year 1998 through February 27, 1998

Financial Activity	Recording Issue
State Appropriations	The business office did not record the repair and betterment allotment of $143,591 in MnSCU accounting for fiscal year 1997.
Federal Financial Aid	The federal financial aid account had a negative cash balance of $180,000 as of February 1998, representing activity not properly recorded in MnSCU. The college did not investigate the cause of this negative balance that was carried forward over the years.
State Grants	The college did not properly record the state grant activity in MnSCU accounting resulting in a negative balance of $40,000 as of February 1998. This balance was the result of incorrectly recording receipts and disbursements in fiscal years 1997 and 1998.
Bookstore	The business office did not accurately record its financial activities in MnSCU accounting. Examples are discussed in Chapter 5.
Continuing Education	Continuing education incorrectly recorded monthly facility rental as tuition income on MnSCU accounting in fiscal years 1996 and 1997. Annual rental income totaled approximately $20,000.

The college is working with the MnSCU system office to correct these errors. The college should record financial activity accurately and timely to ensure the integrity of the accounting records. Complete and accurate accounting records are also necessary to evaluate the financial status of the college.

Recommendation

- *North Hennepin Community College should properly record all financial activity to ensure the accuracy of the accounting records.*

3. The college did not perform timely bank reconciliations to ensure the accuracy of its accounting records.

The college did not reconcile its five local bank account cash balances to MnSCU accounting and supplementary accounting records for either fiscal year 1996 or 1997. Significant differences existed between the cash balances shown on the local bank statements and the balances recorded on MnSCU accounting. For example:

- The college did not reconcile the cash balance recorded on the MnSCU accounting system to the local bank account check register and bank statements. The cash balance in the accounting records was a negative $235,000 at June 30, 1997. The college could not explain the negative amount. As a result of not maintaining accurate records, the college had not been able to reconcile the MnSCU accounting system cash balances to the bookstore bank statements.

- There was a difference of $171,895 between the bank statement and the general ledger cash balance for the state grant account as of February 11, 1998.

- The college did not reconcile its federal financial aid bank statements for April, May, and June until July of 1997. The college also did not reconcile the August, September, October, and November bank statements until December of 1997.

In addition, the college did not reconcile its deposits to the state treasury bank account clearing activity. The college makes daily deposits to the state treasury bank account. The following day the State Treasurer sweeps the amount recorded on the accounting system out of the bank account. The college needs to verify the amount swept to ensure the State Treasurer collected the proper amount.

The business office cited a shortage of staff as the reason for the delay in completing the reconciliations timely. The system office is currently assisting the college in performing the reconciliations. However, the failure of the college to reconcile the financial activities increases the risk of errors or irregularities not being detected timely and decreases the reliability of financial information on the accounting systems.

Recommendations

- *The college should reconcile local bank accounts to MnSCU accounting cash balances each month.*
- *The college should also reconcile the state treasury deposits daily.*

4. A college faculty member was a voting member on the foundation's board, which did not provide an appropriate separation of management functions.

One faculty member from the college was a voting member of the foundation board from July 1995 to February 1998. However, the fiscal year 1998 contract between the foundation and the college states that a faculty member may not be a voting member of the foundation. Although the foundation provides a benefit to the college, its management function should remain separate and distinct from the college.

Recommendation

- *The college should ensure that no faculty members are voting members on the foundation's board.*

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Chapter 3. Tuition and Student Fees

Chapter Conclusions

Generally, North Hennepin Community College properly recorded tuition and fee revenue on the MnSCU accounting system. However, we noted some control weaknesses in the collection and recording of receipts. The college did not have adequate segregation of duties over the receipt process in the business office and the continuing education department. The continuing education department did not reconcile receipts to the accounting records. The college did not have an accurate accounts receivable balance. The college also did not have adequate controls over access to its computer system. Finally, the college did not have adequate controls over some receipts collected for student activities.

North Hennepin Community College collected tuition and fees each quarter from students in campus programs. The resident tuition rate was $42.25 plus fees for fiscal year 1996 and $42.40 plus fees for fiscal year 1997. The college also collected student activity fees of $2.25 per credit hour. Tuition, fees, and continuing education revenue for fiscal years 1996 and 1997 are shown in Table 3-1.

Table 3-1
Tuition Revenue
Fiscal Years 1996 and 1997

Revenue Source	Fiscal Year 1996	Fiscal Year 1997
Tuition*	$6,172,924	$6,452,957
Fees	551,398	415,672
Non-credit tuition	544,097	742,458
Total	$7,268,419	$7,611,087

* Includes student activity fees and is net of tuition refunds.

Source: Fiscal years 1996 and 1997 tuition and fee data from the MnSCU accounting system.

The college collects tuition for credit classes at the accounting and fees office and for non-credit classes at the continuing education department.

The business office recorded the registration, billing, and collection of payments from students on the Collegiate Information System (CIS). The college also records refunds on CIS. At the end of each day, the accounting and fees office prepared a deposit and reconciled cash to a daily report generated by CIS. The next day, the business office entered the financial activity into MnSCU's accounting system. A courier delivered the deposit to the bank.

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The continuing education department did not use CIS, but recorded transactions on a separate program. Continuing education used this program to register, bill, and collect payments from students. The program also tracked information and provided customer service features for the department. When the college received payment, the department entered relevant information. The business operations manager collected and coded the receipts and prepared a deposit. The continuing education department sent the receipts to the business office. The business office completed the deposit and entered the receipts into MnSCU's accounting system.

Audit Objective and Methodology

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

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

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

Conclusions

Generally, North Hennepin Community College properly recorded tuition and fee revenue on the MnSCU accounting system. However, we noted some control weaknesses in the collection and recording of receipts. The college did not have adequate segregation of duties over the receipt process in the business office and the continuing education department. The continuing education department did not reconcile receipts to the accounting records. The college did not have adequate controls over access to its computer system. Finally, the college did not have an accurate accounts receivable balance. These issues are discussed in the following findings.

5. The college did not adequately segregate certain duties related to the tuition process.

The college did not properly segregate duties related to the tuition process in the business office and in the continuing education department. The business office supervisor made cancellations and adjustments to tuition charges without an independent review of these transactions. The business office canceled certain fees and tuition as part of the registration process. For example, the college eliminated parking fees during the registration process for students attending class off-campus. The college also canceled certain tuition charges for students withdrawing from class. Business office staff, including the cashiers and the accounting supervisor, had the ability to authorize these cancellations. The accounting supervisor reviewed a monthly report of the cancellations made by the cashiers. However, there was no independent review of the cancellations and adjustments made by the accounting supervisor. The accounting supervisor's ability to cancel or adjust transactions without any type of review increases the risk of errors or irregularities occurring and going undetected. Another employee should periodically review the cancellations and adjustments made by the accounting supervisor.

The continuing education department had an inadequate segregation of duties over the collection and recording of non-credit tuition receipts. The business operations manager collected receipts, prepared the deposit, and recorded the transactions on the accounting system. Concentrating the duties over a financial activity in one employee increases the risk that errors or misappropriation of funds may occur and not be detected.

Recommendations

- *The college should independently review the tuition cancellations and adjustments made by the business office accounting supervisor.*
- *The continuing education department should separate the functions of collecting and recording tuition receipts.*

6. Staff in the continuing education department did not verify non-credit tuition deposits to related accounting records.

Staff in the continuing education department did not verify receipts collected to the amount recorded on the department's accounting system. Employees collected non-credit tuition and entered the receipts on the accounting system. The business operations manager prepared the deposit, which was forwarded to the business office. However, no one in the department or the business office verified the amount deposited to the receipts recorded on the accounting system. Therefore, the college had no assurance that non-credit tuition deposited in the state treasury and recorded on MnSCU accounting was the correct amount. The college recorded $1,286,555 as non-credit tuition receipts on MnSCU accounting for fiscal years 1996 and 1997. A complete reconciliation process would ensure the accuracy of the amounts collected and recorded on the accounting systems.

Recommendation

- *The college should establish a reconciliation system to ensure the proper recording of non-credit tuition collected and deposited by the continuing education department.*

7. The college did not accurately record accounts receivable for student tuition on the Collegiate Information System (CIS).

The college did not properly adjust the accounts receivable balance for tuition waived when students withdrew from credit courses. In addition, the college did not include non-credit tuition in the accounts receivable balance. The college developed its accounts receivable listing from information on CIS. The accounts receivable balance as of March 3, 1998, was $1,187,000. The balance consisted mainly of tuition and fees and loan balances owed by students dating back to 1994. Many of the student account balances are not valid because the college did not adjust the charges for students who withdrew from credit courses over the years. Also, as of March 1998, the college had not collected the high school option revenue for the 1997-98 fall and winter quarters which totaled $406,000. This amount was due from the Department of Children, Families & Learning. See Table 3-2 for an aging of the accounts receivable balance.

Table 3-2
Tuition Accounts Receivable Balance
As of March 3, 1998

		AGED			
< 30 days	**> 30 days**	**>60 days**	**>90 days**	**>120 days**	**Total**
$612,000	$33,000	$54,000	$179,000	$309,000	$1,187,000

Note: This accounts receivable balance does not include continuing education receivables.

Source: MnSCU Systems Office Receivable Report as of March 3, 1998.

The accounts receivable balance was overstated because the college did not adjust the tuition charges for students who withdrew from credit courses. The college policy provides that it will waive 80 percent of tuition costs for certain student withdrawals. However, the college did not adjust the accounts receivable on CIS to reflect these adjustments resulting in an overstatement of the balance. While the business office had written off uncollectible amounts for accounts established since January 1996, the college did not adjust accounts prior to that date. The accounts receivable listing shows a balance of $309,000 for accounts older than 120 days. However, the college should have written off or reduced many of these accounts.

The continuing education department did not include its accounts receivable on CIS and it did not actively attempt to collect overdue accounts. The failure to include its accounts receivable balance on CIS understates the accounts receivable balance reported by the college. The department maintains its accounts receivable listing on its computer system. The department enters the billing information and generates an invoice The department only bills for non-credit tuition charges that are greater than $100. The department was responsible for collecting its accounts receivable. However, it did not follow its established process for billing and collecting amounts due. In addition, it did not refer overdue accounts totaling $19,000 to collection agencies or use the revenue recapture system.

Recommendations

- *North Hennepin Community College should ensure the accounts receivable balances are complete and current.*
- *The college should ensure that the continuing education department properly collects its overdue accounts.*

8. Some student workers had improper access to the Collegiate Information System.

The college did not properly monitor access to one of its computerized applications. The college allowed staff, faculty, and student workers access to its Collegiate Information System. The technology and telecommunications director maintains security over the computer system. The director periodically sent a roster of student workers to each of the college's departments. The roster is a list of all student workers in that department who had access to the college's computer system. The department was to update this roster and make changes if access had changed or if the student worker did not work at the department any longer. Based on the response, the director made access changes. However, three student workers had improper access to the computer system. Two students were no longer working for the college but still had access, and one student had access to both financial aid and registration systems. Access to both computer systems would allow the student worker to register a fictitious individual and also issue financial aid. Improper access to the system weakens the controls over financial activities.

Recommendation

- *The college should ensure the departments periodically review employee access and provide current and accurate student worker rosters to the technology and telecommunications director.*

9. The college did not have adequate controls over some receipts collected for student activities.

The college did not have proper controls over some receipts for student activities. The theater department and cultural center were the two largest student activities collecting receipts. The theater department collected $8,000 in fiscal years 1996 and 1997. The cultural center collected $41,000 in fiscal years 1996 and 1997. Both the theater department and the cultural center had one person collecting and reconciling receipts to the tickets sold. The cultural center also did not document the reconciliation between the receipts collected and the tickets sold. The inadequate separation of duties and inadequate reconciliation increases the risk of errors or irregularities occurring and not being detected.

Management should provide guidance to the supervisor of student activities to ensure proper controls and accountability. Management should also monitor these activities periodically to ensure that controls are working effectively and that financial activities are properly recorded.

Recommendation

- *The college should ensure that student activities are properly recorded.*

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Chapter 4. Payroll

Chapter Conclusions

North Hennepin Community College designed controls to provide reasonable assurance that payroll expenditures were properly recorded on the payroll and accounting systems. However, the college allowed a non-credit instructor's salary to exceed the maximum salary amount authorized by state law. In addition, the college had an inadequate segregation of duties between personnel (human resources) and payroll functions. In addition, the college did not complete performance evaluations and did not complete employment eligibility verification forms for some employees.

North Hennepin Community College employed approximately 323 staff during fiscal years 1996 and 1997, consisting of 170 full-time and part-time faculty and 153 non-faculty personnel. Payroll expenditures totaled $13.5 million in fiscal year 1997. Employees at North Hennepin Community College are members of the following compensation plans: American Federation State County Municipal Employees (AFSCME), Minnesota Community College Faculty (MCCFA), Middle Management Association (MMA), Minnesota Association of Professional Employees (MAPE), Excluded Administrators Plan, and Commissioner's 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 information. SCUPPS stored pay rate information and bargaining agreement history. The PPS payroll system contained pay rate information and calculated employee biweekly payments. The college also used PPS to account for leave accruals for classified employees. The college reconciled the employee timesheets to the biweekly leave report. The college converted to the state's new SEMA4 payroll system in October 1996. The SEMA4 system replaced the PPS system.

Audit Objective and Methodology

Our review focused on the following objective:

- Did North Hennepin Community College design internal controls to provide reasonable assurance that payroll expenditures were properly authorized, adequately supported, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization?

To answer these questions, we made inquiries of college staff to gain an understanding of the payroll process. We tested a sample of payroll transactions to ensure that there was proper documentation for those transactions, and that the college charged employee payroll to the correct cost center and funding source.

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Conclusions

North Hennepin Community College designed controls to provide reasonable assurance that payroll expenditures were properly recorded on SCUPPS and MAPS. However, the college had an inadequate segregation of duties between the personnel (human resources) and payroll function. In addition, the college did not complete performance evaluations and did not complete employment eligibility verification forms for some employees. The college also allowed a non-credit instructor to exceed the maximum salary amount. These issues are presented in the following findings.

10. The college allowed one non-credit instructor to receive a salary exceeding the legal limit.

The salary earned by one non-credit instructor during fiscal year 1997 exceeded the maximum amount authorized by state law. There were no controls in the college to monitor the salaries of faculty and ensure compliance with legal provisions. This employee worked an extensive number of hours in the continuing education department earning a total salary of approximately $125,000. Minn. Stat. Section 15A.081, Subd. 7 (b), limited the MnSCU's Chancellor's salary to 95 percent of the Governor's salary. Minn. Stat. Section 43A.17, Subd. 9, further stated that the salary of the head of a state agency was the upper limit on the salaries of individual employees in the agency. Therefore, the maximum salary allowed in fiscal year 1997 was 95 percent of the Governor's salary, or $111,000. The employee's salary exceeded the maximum authorized amount by $14,000. The 1997 legislative session repealed Minn. Stat. Section 15A.081, Subd. 7, limiting the Chancellor's salary. MnSCU will have to develop a policy regarding salary maximums for faculty.

Recommendations

- *The college should develop controls to ensure that employees do not exceed the maximum authorized amount.*
- *The college should work with the Attorney General's Office to resolve the excess salary amount in fiscal year 1997.*

11. The college did not adequately separate personnel and payroll functions.

North Hennepin Community College did not adequately separate the personnel and payroll functions. The college enters personnel transactions in SCUPPS, which interfaces with SEMA4 to produce payroll warrants. The payroll clerk frequently assisted human resource staff by inputting various data into SCUPPS. The payroll clerk had the ability to enter both personnel and payroll transactions into these systems. Access to both SCUPPS and SEMA4 could permit an employee to make unauthorized personnel changes to SCUPPS and use those transactions to generate improper payroll transactions in SEMA4. In order to prevent errors and irregularities from occurring, the college should separate the personnel and payroll data entry functions.

Recommendation

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

12. The college did not maintain complete payroll and personnel records.

The college had not completed annual performance evaluations for its employees for several years. In addition, it did not have some employment eligibility verification forms in the personnel files. We found that 13 of 26 employees tested did not have a current evaluation form in their file. One employee did not receive an evaluation from April 1991 through April 1997. Each employee should have an annual evaluation according to the college's personnel policy.

The college did not have employment eligibility verification forms on file for some employees. Federal regulations require the college to maintain a copy of the eligibility verification form for all employees on file. The employment eligibility form verifies whether the employee is a citizen or national of the United States, a lawful permanent resident, or an alien authorized to work until a specified date. The college could not locate 8 of the forms in the sample of 26 items tested.

Recommendations

- *The college should ensure completion of annual employee performance evaluations.*

- *The college should ensure completion of the employment verification form.*

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Chapter 5. Bookstore Operations and Other Auxiliary Enterprises

Chapter Conclusions

The college did not accurately record the bookstore financial activities in the MnSCU accounting system. In addition, the college did not adequately pursue collection of overdue bookstore accounts. The college did not ensure the propriety or timeliness of transfers between the bookstore and general operating accounts. The college did not perform timely reconciliations of the bookstore bank account. The college did not have complete and accurate financial statements to monitor the status of bookstore financial activities. Finally, the college did not confirm the accuracy of cafeteria receipts.

The North Hennepin Community College bookstore sells school materials and personal supplies. These products include textbooks, supplies, books, gifts, candy, greeting cards, clothing, backpacks, and stamps. Revenues from the sale of these items totaled approximately $1.3 million for fiscal year 1997. In addition, the bookstore manages the college's enterprise funds such as the college's food service contract with a private vendor and the college's parking fees which are used to provide maintenance to parking areas.

The bookstore processed sales through a cash register. Students had the option of paying by cash, checks, credit cards, or charges to financial aid. At the end of the day, a bookstore supervisor closed out the cash register and reconciled the sales recorded on the register tape to the daily receipts and locked the cash in the safe. The following day, the business manager reviewed the reconciliation and deposited the money in the bank. The business office entered the sales information into MnSCU accounting.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to bookstore receipts and disbursements:

- Did the college design internal controls to provide reasonable assurance that bookstore revenue collections were complete, promptly deposited, and accurately recorded in the accounting records?
- Did the college design internal controls to provide reasonable assurance that bookstore disbursements were reasonable, properly authorized, and accurately recorded?
- Did the college have an effective process to monitor the status of financial activities?

North Hennepin Community College

We interviewed college bookstore and business office staff to determine how they processed receipts and disbursements. We did substantive testing of receipts generated by daily sales activity in the bookstore. We also performed detailed testing of bookstore disbursements. We also reviewed available reports showing the financial results of the bookstore. Finally, we reviewed the process for verifying cafeteria receipts.

Conclusions

The college did not accurately record the bookstore financial activities in the MnSCU accounting system. In addition, the college did not adequately pursue collection of overdue bookstore accounts. The college did not ensure the propriety or timeliness of transfers between the bookstore and general operating accounts. The college did not perform timely reconciliations of the bookstore bank account. The college did not have complete and accurate financial statements to monitor the status of bookstore financial activities. Finally, the college did not confirm the accuracy of cafeteria receipts. These findings are discussed in this chapter.

13. North Hennepin Community College does not properly monitor the status of bookstore financial activities.

The college did not properly record its revenue and expense balances on MnSCU accounting. The bookstore's financial activities were administered through a local bank account outside of the state treasury. The college did not have accurate information to produce financial statements to monitor the status of bookstore finances. The bookstore is an auxiliary enterprise and should account for operations in a manner similar to private business.

The college has not verified the accuracy of bookstore financial activities recorded in MnSCU accounting. The business office did not accurately record disbursements and accounts payable on MnSCU accounting. For example, the bookstore cost center on MnSCU accounting showed an inaccurate accounts payable of $257,000 on February 4, 1998. The college entered an estimated accounts payable on MnSCU accounting; however, it did not reduce this balance by the payments made. Also, as discussed in Chapter 2, Finding 3, the college was not able to explain a $235,000 negative cash balance for the bookstore on the accounting system at June 30, 1997. In addition, the college improperly classified bookstore salaries, totaling $395,000 in fiscal years 1996 and 1997, as transfers out.

The college does not allocate certain indirect costs or overhead, including rent, utilities, and other costs to bookstore operations. In lieu of charging an appropriate portion of these costs to the bookstore, the college transfers the bookstore's available proceeds into the college's general operating fund. The college transferred $363,422 during fiscal years 1996 and 1997. The college relied on these transfers to fund activities within the college, such as campus security, which business office personnel estimated to be approximately $60,000 annually, as well as various other campus salaries. In addition, the bookstore paid over $16,000 in financial aid and scholarships directly from its profits. The college should define its costs of bookstore operations and determine its financial status.

We could not determine the bookstore's financial status from MnSCU accounting because of incomplete and erroneous information. Accurate financial statements would substantially reduce the college's risk of financial errors and of making imprudent business decisions. Although we did not conduct a detailed review of other enterprise activities, staff told us that similar problems exist.

Recommendations

- *The college should properly record its revenue and expenses on MnSCU accounting to produce an accurate income statement for the bookstore. The college should determine the proper costs of operations, the reasonableness of markup, and the use of any profits.*

- *The college should reconcile local bank accounts to MnSCU accounting cash balances.*

14. The college did not transfer funds to the state account timely.

The college did not make timely transfers of funds to reimburse the state clearing account for the salaries of bookstore personnel. Colleges use a payroll clearing account in the state treasury to pay salaries of employees funded from activities recorded in local bank accounts. The college must draw a check on the local bank account to reimburse the clearing account. Bookstore salaries totaled approximately $395,000 for fiscal years 1996 and 1997. Until the clearing account is replenished, the state is losing potential interest by funding the bookstore employees' salaries. The business office was responsible for determining the timing of transfers. The average biweekly bookstore salary expense was approximately $7,500. However, the transfers from the bookstore account to the clearing account only occurred three times annually and ranged from $25,000 to $80,000 each.

Recommendation

- *The college should replenish the state's account for the estimated amount needed to meet the biweekly bookstore salary expense.*

15. The bookstore did not adequately pursue collection on certain overdue receivables.

The bookstore did not collect on certain overdue accounts for the students enrolled in the Police Officers Cadet Program. The college foundation sponsored the tuition costs for some students in the program. The bookstore allowed these students to charge $1,390 for books. However, the bookstore never collected this amount.

There was an apparent misunderstanding regarding who was to pay for the books. The director of minority affairs informed the bookstore that the college foundation was sponsoring the costs of the books. The bookstore pursued collection on these charges with the director of minority affairs throughout the school year. However, the foundation stated that it limited their commitment to the cost of tuition. There never was a commitment to cover the costs of the books. This misunderstanding delayed attempts to recover the costs of the books from the students.

The bookstore did not obtain a written confirmation from either the director of minority affairs or from the college foundation as to who would ultimately pay for the costs of the books. The bookstore should have attempted to confirm at the point of sale who was responsible for the charges. They should have obtained a confirmation from the foundation, or they should have collected the costs from the students.

Recommendations

- *The bookstore should obtain written approval from the sponsoring organization before students are allowed to charge books.*
- *The bookstore should also follow-up, on a timely basis, any outstanding receivables.*

16. The college did not verify the accuracy of cafeteria income.

The college did not verify that it received the correct amount of income from the cafeteria. The college had a contract with Aramark Corporation (ARA) to operate the cafeteria in the college. The college received six percent of gross food service sales, twenty percent of gross vending receipts, and eight percent of catering sales. Fiscal year 1997 revenue totaled approximately $41,000. ARA unilaterally determines the college's proceeds from these activities. The bookstore is provided monthly with an ARA check and supporting statement. The college did not verify the accuracy of amounts received to ARA supporting documentation, as provided for in the contract.

Recommendation

- *The college should periodically review the documentation supporting the statement ARA provides to the college.*

Chapter 6. Institutional Work Study

Chapter Conclusions

North Hennepin Community College's financial aid staff and a student worker falsified payroll timesheets resulting in the student receiving payment for time not worked. We are referring this case to the Office of the Attorney General for resolution. In addition, the financial aid office did not comply with the college's institutional work study guidelines. Finally, the college did not report instances of potential wrongdoing by its employees to the Office of the Legislative Auditor.

The Minnesota State Colleges and University System funds the Institutional Work Study from state appropriations. North Hennepin Community College allocated \$103,316 and \$97,888 in fiscal years 1996 and 1997, respectively, to its institutional work study program. Student workers augment and supplement existing staff. MnSCU Policy 4.5, concerning student employees, delegates administration of student employment to the individual campuses. Each college is responsible for establishing employment criteria such as student credit load, hourly wages, and maximum hours. Each campus also determines whether it will use student need as a basis for selection. The MnSCU policy requires the college to verify a student's eligibility in the employment programs each enrollment term.

North Hennepin Community College's Student Employee Handbook outlines the college's institutional work study guidelines. The college requires students interested in campus employment to complete the financial aid application process. When a student demonstrates financial need, the financial aid office awards the student federal or state work study funds. In cases where a student does not demonstrate sufficient financial need, the financial aid office may offer the student employment through the institutional work study program. The college's institutional work study guidelines require a student be accepted for enrollment in a degree or certificate program, enroll for at least one credit, and demonstrate satisfactory academic progress. The guidelines further state that the college often reserves institutional work study funds for federal and state work study students who have reached their financial aid award limits prior to the end of the school year or job task. The guidelines also state that the college may give priority to students enrolled at least half-time; however, the guidelines allow exceptions to this requirement in unique situations.

Audit Objectives and Methodology

We conducted a special review into the misuse of institutional work study funds at North Hennepin Community College. In response to inquiries made at the beginning of the audit, the college formally reported the misuse of institutional work study funds to our office on December 30, 1997. Specifically, the college notified our office that in December 1996, two employees in the financial aid office knowingly approved and processed falsified timesheets for a student worker assigned to the financial aid office.

Our review addressed the following questions:

- Did the student receive pay for hours not worked?
- If so, did the employees who agreed to this arrangement receive any personal benefit by approving this transaction?
- Were there other cases where student workers may have received similar benefits or advantages?

We reviewed the student worker's financial aid file from 1991 through 1996. We interviewed college employees regarding the institutional work study program. We took testimony under oath from the two college employees on March 6, 1998, and March 16, 1998. We also obtained the former student's sworn testimony on March 25, 1998.

Conclusions

North Hennepin Community College financial aid staff and a student worker falsified payroll timesheets resulting in the student receiving payment for time not worked. We are referring this case to the Office of the Attorney General for resolution. In addition, the financial aid office did not comply with the college's institutional work study guidelines. Finally, the college did not report instances of potential wrongdoing by its employees to the Office of the Legislative Auditor.

17. Two financial aid office employees and a student worker falsified payroll timesheets resulting in payment to the student for hours not worked.

A student worker and college staff falsified timesheets resulting in an inappropriate payment of $364. The student's supervisor offered the student, who worked in the financial aid office, an opportunity to end employment on December 13, 1996, but yet be paid through December 31, 1996. The student accepted this offer on December 13, 1996, and at the direction of the supervisor, completed and signed timesheets falsifying 52 hours of work through December 31, 1996. The financial aid office had previously determined that December 31, 1996, would be the student's last day of employment due to eligibility concerns. The student's supervisor stated the offer to pay the student for hours not worked was based on the student's personal circumstances and financial situation. The student's supervisor informed the financial aid officer of the offer to pay the student for hours not worked. The financial aid officer agreed to this arrangement and authorized the false timesheets. The financial aid officer submitted a payroll roster showing a total of 89 hours for the student during the pay period ending December 13, 1996; although the student only worked 37 hours.

The college initiated personnel action against the two financial aid employees; however, it did not pursue repayment of funds from the student. The college administration became aware of the inappropriate payment to the student in January 1997. The two employees met with the interim president and offered to repay the college. The employees received oral reprimands; however, the college did not accept repayment from the employees. We found no evidence that the financial aid employees received a personal benefit from this transaction. In addition, we found no evidence of additional payments to the student for falsified hours.

Recommendation

- *North Hennepin Community College should work with the Office of the Attorney General to ensure the recovery of institutional work study funds.*

18. The college made questionable judgments when determining institutional work study eligibility.

In addition to the inappropriate payment as discussed in Finding 17, we question the eligibility of two students who received institutional work study funds. After receiving degrees in marketing and management, the student began a pattern of enrolling for one credit each quarter. This pattern of enrollment continued for seven quarters. In two of these quarters, the student withdrew from enrollment entirely. Although the student may have met the minimum enrollment requirements, it appears the student enrolled in one credit classes only to remain eligible for institutional work study employment. During the seven-quarter period, the student earned $17,709 in institutional work study. On November 14, 1996, the financial aid office informed the student that he would have to enroll in at least eight credits or his employment would end effective December 31, 1996.

We attempted to address whether other institutional work study students may have received similar benefits or advantages. We reviewed seven other institutional work study students. We question one other situation involving a student worker in the financial aid office.

The college continued to pay another student worker in the financial aid office during one quarter in which the student had not registered for any credits. During this quarter, the student earned a total of $1,859 by working in the financial aid office an average of 55 hours a pay period. As discussed previously, the college's eligibility guidelines state that students must be enrolled in at least one credit to be eligible for institutional work study. MnSCU Policy 4.5, Part 1, requires the college to verify student eligibility each enrollment period. Beginning in fiscal year 1998, the college has an automated process to verify student worker enrollment each pay period. The payroll system creates edit reports indicating those students that have not enrolled in credit classes.

The institutional work study guidelines did not provide sufficient criteria to ensure the college used the funds properly. In addition, exceptions to established guidelines place the college at risk of, at a minimum, the appearance of favoritism toward certain students. For example, financial aid staff indicated there was an informal policy limiting a student worker's hours to 10 per week, with exceptions granted in certain circumstances. Prior to employment, the student and supervisor complete a student employment authorization form. The form provides for the terms of employment including the rate of pay and the maximum hours per week the student is to work. We reviewed the authorization forms for eight students, three worked in the financial aid office and the remaining five worked in other college departments. Based on the authorization forms, the financial aid staff authorized student workers in that office between 15 to 30 hours per week during the academic year, and up to 40 hours per week during the summer sessions. The financial aid office authorized students working in other departments up to 10 hours per week. Finally, the five student workers employed in other college departments were enrolled in at least eight credits per quarter. However, two of the three financial aid office student workers were enrolled in between one to five credits per quarter. The college should review its guidelines to ensure it protects the college from alleged favoritism. The college should also ensure it complies with its program guidelines.

Recommendation

- *The college should review its institutional work study guidelines to ensure the college meets the intent of the program. The college should also ensure it complies with its guidelines.*

19. MnSCU did not report potential instances of financial impropriety by North Hennepin Community College employees to the Office of the Legislative Auditor, as required by state law.

The college did not report instances of potential wrongdoing by its employees to the Office of the Legislative Auditor. The college identified several instances of potential financial improprieties involving its employees, including the falsified timesheets discussed in Finding 17. The college investigated certain of these matters internally, and in one case hired a private investigator to pursue a matter. However, the college did not report these instances to the Legislative Auditor until the beginning of the current audit. We reviewed the various cases and are referring the case discussed in Finding 17 to the Office of the Attorney General for resolution.

Minn. Stat. Section 43A.39, Subd. 2, requires state agencies to report to the Legislative Auditor in writing when there is a probable cause that a substantial violation of the code of ethics has occurred. Recently, the Minnesota State Colleges and Universities System also issued a policy regarding the reporting of potential financial improprieties. MnSCU Policy Number 7.2, Part 3, requires all colleges to report to the Office of Internal Auditing any potential instances of improprieties.

Recommendation

- *The college should report, upon discovery, all instances of potential financial impropriety to the Legislative Auditor and the MnSCU Office of Internal Auditing.*

Chapter 7. Federal Student Financial Aid

Chapter Conclusions

North Hennepin Community College designed internal controls that provided reasonable assurance it was managing federal student financial aid programs in compliance with applicable laws and regulations. In addition, the college properly authorized and reported disbursements in the accounting records. The college also complied with applicable laws and regulations related to cash management and federal reporting. We found one issue, however, relating to the accuracy of the Perkins Loan accounts receivable balance.

North Hennepin Community College participates in the following federal student financial aid programs administered by the U.S. Department of Education.

- The Federal Pell Grant Program (CFDA #84.063)
- The Federal Family Education Loan (FFEL) Programs (including subsidized and unsubsidized Stafford Loans) (CFDA #84.032)
- The Federal Work-Study (FWS) Program (CFDA #84.033)
- The Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.038)
- The Federal Perkins Loan Program (CFDA #84.038)

The college granted federal financial aid to 34 percent of the students attending the college. Approximately 25 percent of the student population received need-based aid.

The Federal Pell Grant is the first source of assistance to the students. The college does not limit Pell Grant recipients, therefore, all eligible students receive aid payments. The maximum Pell Grant for a full-time student in the 1997-98 award year was $2,700.

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

Federal Perkins Loans are low-interest, long-term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay their post-secondary education costs. Schools must give priority to students with exceptional financial need. Individual campuses are responsible for awarding, disbursing, and entering loan amounts into the system-wide loan management system. Disbursement transactions automatically update the loan management system once a week. MnSCU maintains the centralized Loan Management System (LMS) for the community colleges. System office duties include corresponding with students going into repayment status, receiving all loan repayments, and pursuing delinquent loans. Table 7-1 shows Federal Financial Aid payments made to students in fall quarter 1998.

Table 7-1
Federal Financial Aid Payments to Students During Fall Quarter 1998

Type of Payment	Fall Quarter 1998 Student Participation	Fall Quarter 1998 Aid Disbursed
The Federal Pell Grant Program	682	$430,000
The Federal Subsidized Stafford Loans Program	538	$466,000
The Federal Unsubsidized Stafford Loans Program	287	$148,000
The Federal Work-Study Program	79	$54,000
The Federal Supplemental Education Opportunity Grant Program (SEOG)	311	$30,000
The Federal Perkins Loan Program	36	$55,000

Source: Minnesota State Colleges and Universities General Ledger Accounting System as of December 30, 1997.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions related to federal financial aid programs as of January 1998:

- Did the college design internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable laws and regulations?

- Did the college comply with applicable laws and regulations for cash management and federal reporting of federal student financial aid?

To address these questions, we evaluated and tested controls over compliance for determining student eligibility, awarding, packaging and disbursing federal financial aid. We also tested the college's compliance with federal cash management and reporting guidelines.

North Hennepin Community College

Conclusions

North Hennepin Community College designed controls that provided reasonable assurance that it is managing federal student financial aid programs in compliance with applicable laws and regulations. In addition, for the student financial aid items tested, the college properly authorized disbursements for eligible students and properly reported disbursements in the accounting records. North Hennepin Community College complied with applicable federal requirements over cash management and timely and accurate reporting of financial activity. However, we found the following issue relating to the Perkins loan accounts receivable balance.

20. The college did not reconcile its Perkins loan receivable balance to MnSCU's centralized loan management system.

North Hennepin Community College did not reconcile its Perkins loan receivable balance to MnSCU's centralized loan management system. According to the college's fiscal year 1997 Fiscal Operations and Application Report (FISAP), the loan receivable balance for Perkins loans was $1,331,533. Loans receivable reported by the MnSCU loan management system totaled $1,352,717. The college had not reconciled the $21,184 difference. The college reports total loans issued, total repayments, and total outstanding principal on the FISAP. The unreconciled difference represents inaccurate reporting or recording of financial activity for this program.

Recommendation

- *To ensure accurate federal reporting, the college should resolve the differences between its Perkins loan receivable balance and the MnSCU centralized loan management system.*

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Chapter 8. Administrative Expenditures

Chapter Conclusions

North Hennepin Community College designed internal controls to provide reasonable assurance that its administrative expenditures were properly authorized, adequately supported, and accurately reported in the accounting records.

North Hennepin Community College incurred General Fund expenditures of $2,819,000 in fiscal year 1996 and $2,941,000 in fiscal year 1997 for its administration. Table 8-1 shows these expenditures by type for fiscal years 1996 and 1997.

Table 8-1
Summary of Administrative Expenditures
Fiscal Years 1996 and 1997

Expenditure Type	1996	1997
Purchased Services*	$1,838,000	$2,111,000
Supplies	535,000	549,000
Equipment	446,000	281,000
Total	$2,819,000	$2,941,000

* Purchased services include rent, repairs, utilities, and other miscellaneous areas.

Source: Minnesota State Colleges and Universities Trial Balance as of December 31, 1997.

The MnSCU system office developed procedures for colleges to follow when purchasing services, supplies, or equipment. For North Hennepin Community College the purchasing process includes the following procedures: A faculty member or other employee completes a requisition for purchase. The appropriate dean approves the request and forwards the requisition to the accounting and fees office. The accounting and fees office creates a purchase order and enters the information on MnSCU's accounting system. The business office submits the purchase order to the vendor. The receiving department ensures the items received match the purchase order. The accounting and fees office sends a copy of the invoice to the dean for negative confirmation of the accuracy of the invoice. The college submits the invoice to the system office for payment.

North Hennepin Community College

Audit Objective and Methodology

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

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

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

Conclusions

North Hennepin Community College designed internal controls to provide reasonable assurance that its administrative expenditures were properly authorized, adequately supported, and accurately reported in the accounting records.

Status of Prior Audit Issues
As of February 27, 1998

Most Recent Audits

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. Legislative Audit Report 97-29, June 1997, included three issues related to North Hennepin Community College. One finding addressed access controls and another identified one Perkins loan promissory note that was not signed. The third finding related to overpayment of financial aid. Two findings were resolved, and one is pending resolution by the U.S. Department of Education.

Legislative Audit Report 96-24, June 1996 also relates to federal student financial aid guidelines. This report addressed internal controls over student financial aid at North Hennepin Community College. This report contained one finding related to access controls over the SAFE financial aid computer and another finding related to over awarding of a Federal Perkins Loan. These two findings have been resolved. A finding related to questionable adjustments to the costs of attendance budgets used to award financial aid to four students is unresolved pending a determination by the U.S. Department of Education.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. However, Finance has delegated this responsibility for audits of the Minnesota State Colleges and Universities (MnSCU) to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing process consists of quarterly activity reports documenting the status of audit findings. The follow-up process continues until the Office of Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.

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NORTH HENNEPIN COMMUNITY COLLEGE

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April 20, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the recently completed Financial Audit of North Hennepin Community College. In particular I appreciated the very courteous and professional manner in which your staff conducted the audit. Their very timely observations and recommendations are useful to the college and to me in particular. I am personally committed to establishing a strong system of financial management and internal controls at the college and to creating an overall environment of high financial reporting standards. It is my intention to monitor aggressively the implementation of new work processes consistent with the responses to your recommendations.

The college is basically in agreement with the audit findings. Below are responses to each finding and recommendation from the report.

CHAPTER 2 - Financial Management

Finding 1. The college did not adequately evaluate its staffing needs to ensure proper oversight of its financial activities.

The College concurs with this finding. It is the college's responsibility to ensure proper staffing to monitor financial activity at the college. During the period of time covered by the audit the college was experiencing severe financial difficulties (in fiscal years 1996 and 1997 expenditures at the college were reduced by approximately two million dollars). At a time when the college was making significant reductions in academic support and academic course offerings, it was reluctant to add staff in administrative areas. The college was also going through a period of transition from the former Community College System to the new MnSCU system, which included the transition to the new MnSCU accounting system. Initially the staffing demands of these changes were not fully realized. To remedy this finding the college will do the following:

- The Management Analysis Division of the Department of Administration under contract to the MnSCU Office of Internal Auditing will conduct an assessment of staffing responsibilities and effectiveness at the college and make recommendations for improvement. The analysis will include an examination of other selected MnSCU institutions to identify best business office organization practices. The Management Analysis Division projects a completion date of July 1998. The college president and Finance Director will work with the Management Analysis Division to implement the recommendations needed to ensure that controls are in place and working effectively.

Finding 2. The college did not properly record certain financial activity on the MnSCU accounting system.

The college agrees with this finding generally, but disagrees with one of the specific items cited in Table 2-1 as being improperly recorded. During all of FY6 and part of FY7, the college business office continued to maintain its old accounting systems and then enter the information into the new MnSCU accounting system in summary format at year-end. This approach resulted in considerable problems. To ensure that all financial activity is properly and accurately recorded in the future the college will do the following:

- As of July 1, 1997 all financial transactions are being entered directly into the MnSCU accounting system.
- Business Office staff will continue to receive training on the MnSCU accounting system.
- Accounting records will be checked monthly by the Finance Director to ensure proper entries.

The college does not agree with the statement in Table 2-1 that "Continuing education incorrectly recorded monthly facility rental as tuition income on the MnSCU accounting [system] in fiscal years 1996 and 1997. Annual rental income totaled approximately $20,000." The Center for Training and Development, which handles Continuing Education, contracts with two organizations for delivery of their training. However, this does not constitute facility rental. Both Dearborn Financial and APICS have approved curriculum for insurance relicensure and manufacturing certification. They provide the Center with curriculum plans, objectives, and class lists. The Center for Training and Development (Continuing Education) advertises the classes in the quarterly schedules, greets and provides customer services to registrants. These are programs with academic value, which fit into the Center's mission of providing workforce training. The Center for Training and Development does not provide facility rental but directs such requests to the facilities use coordinator in another department on campus.

Finding 3. The college did not perform timely bank reconciliations to ensure the accuracy of its accounting records.

The college agrees with this finding and has now completed the reconciliation process for prior years with the exception of the Auxiliary Account and the All College Account.

- By June 1, 1998, the Auxiliary Account and the All-College Account will be reconciled, completing the reconciliations for all prior years.

- The accounting supervisor will reconcile state treasury deposits daily and local bank accounts will be reconciled to MnSCU monthly.
- The Finance Director will monitor reconciliation activities to ensure they are completed on a timely basis.

Finding 4. A college faculty member was a voting member on the foundation's board, which did not provide an appropriate separation of management functions.

The college agrees partially with this finding. Although the contract between the college and the foundation for fiscal year 1998 clearly stated that a faculty member could serve on the foundation board, this provision was inconsistent with the standard contract language provided by MnSCU. The Foundation has subsequently changed its bylaws and signed a new contract with the college that does not allow a faculty member to serve as a voting member of the board.

CHAPTER 3 - Tuition and Student Fees

Finding 5. The college did not adequately segregate certain duties related to the tuition process.

The college agrees with this finding and will do the following:

- The security clearance for the accounting supervisor has been eliminated and other staff in the Business Office will make all tuition cancellations and adjustments. The accounting supervisor will review and approve the transaction report, which will then be kept on file.
- The Center for Training and Development (Continuing Education) now separates the functions of collecting and recording tuition receipts.

Finding 6. Staff in the continuing education department did not verify non-credit tuition deposits to related accounting records.

The college agrees with this finding and as a remedy will do the following:

- By July 1, 1998 the Center for Training and Development (Continuing Education) will add another staff member in the operations area and install a computer system upgrade to enable the daily balancing of deposits and accounting records. This will ensure separation of duties and the accurate recording of receipts.
- The Finance Director will work with the Continuing Education Department to set up controls for verifying deposits. A schedule of reconciliations will be developed and monitored at regular intervals.

Finding 7. The college did not accurately record accounts receivable for student tuition on the Collegiate Information System (CIS).

The college agrees with this finding and will take the following actions:

- The Finance Director is currently reviewing all outstanding tuition charges from prior quarters to determine which should be written off. In instances where students registered for classes but never attended, it is the intention of the college to apply a policy to write off a certain percentage of these students' tuition charges. The college will complete this process by June 30, 1998.

- By June 30, 1998 the Finance Director will refer all outstanding accounts, including non-credit continuing education charges, to the Minnesota Collection Enterprise.
- The Finance Director will establish a schedule for an internal periodic review of account receivable aging, with special emphasis on any accounts past due for greater than 60 days. In Continuing Education, staff members will seek to collect accounts receivable at 60 and 90 days. After that time, aged items will be reported to the college business office for collection.

Finding 8. Some student workers had improper access to the Collegiate Information System.

The college agrees with this finding and will undertake the following corrective measures.

- The Vice-President for Student and Academic Affairs will develop a policy regarding student access into CIS by May 1, 1998.
- On a monthly basis each department head will provide the Technology Director with a current roster of student workers authorized to have access to the CIS.
- Access codes will be changed on a regular basis.

Finding 9. The college did not have adequate controls over some receipts collected for student activities.

The college agrees with this finding and by August 1, 1998 the Finance Director will develop a policy to outline minimum steps which departments are to take in conjunction with the collection of money at student activity events. The policy will include specifications for segregation of duties, as well as provisions for periodic independent oversight by the business office staff.

Chapter 4 - Payroll

Finding 10. The college allowed one non-credit instructor to receive a salary exceeding the legal limit.

The college agrees with this finding. This was an unusual case wherein a highly popular non-credit instructor far exceeded his performance goals and exceeded the maximum salary limit. His rate of pay was the same as all other non-credit instructors, but as the contracts for this instructor came in, the Center for Training and Development did not monitor his earning against the state mandated salary cap. An exception for exceeding the cap should have been filed as the fiscal year was coming to an end.

- The Center for Training and Development now has a system in place for limiting a non-credit instructor's teaching assignments and monitoring salary so that the cap is not exceeded in the future.
- To ensure compliance with salary limitations, the Human Resources office will track and total each placement on payroll for faculty and non-credit instructors. The Human Resources office will also review salary reports quarterly (or each semester) to maintain accuracy and compliance.

- The college is continuing to work with the Office of the Attorney General to resolve the excess salary amount paid in fiscal year 1997.

Finding 11. The college did not adequately separate personnel and payroll functions.
The college agrees with this action and has undertaken the following corrective actions:

- In order to maintain separation of payroll and personnel functions, all personnel transactions will be entered into SCUPPS by the Personnel Officer Senior or the Personnel Aide Sr. The payroll clerk will not be given access to appointment and payroll disbursement screens in the SCUPPS system. Security access to SCUPPS screens for the payroll clerk position has been changed through MnSCU.

Finding 12. The college did not maintain complete payroll and personnel records.
The college agrees with this finding. The Human Resources department currently tracks and distributes performance evaluation forms for all classified employees. Each month a memo and evaluation form is sent to any supervisor with employees who are due for a step increase and/or an annual performance review. If the evaluation is not completed and returned to the Human Resource office in a timely manner, the supervisor is sent a memo as a reminder. Currently, Associate Deans are responsible for the faculty evaluation process within their respective areas, and the President's Office is responsible for administrative staff evaluations, which are conducted annually and determine merit increases.

- The Human Resources Office will be more aggressive in reminding supervisors of the importance of timely performance evaluations.
- The Human Resources office will offer Performance Management training to managers and supervisors through the Department of Employee Relations throughout the year.

Further, the college was recommended to ensure completion of the employment verification form. The Human Resources staff reviewed all the department files to locate employment verification forms from previous fiscal years which were not placed in the personnel files. Once located, the forms were filed in the appropriate personnel file.

- To ensure complete forms for all current employees, the Human Resources staff has been directed to review all current personnel files to make sure there is a completed employment verification form in the file. If not, the employee will be asked to complete a new form and asked to provide the appropriate documentation which will be photocopied and attached to the completed form. This will be accomplished by the end of this academic year.

Chapter 5 - Bookstore Operations and Other Auxiliary Enterprises

Finding 13. North Hennepin Community College does not properly monitor the status of bookstore financial activities.
The former Community College System did not have a centralized accounting system for local activities such as the bookstore account. Rather the college maintained accounting records for these activities and submitted annual financial statements. Beginning in fiscal year 1996 with the new MnSCU accounting system the college maintained its old accounting system as it also recorded

certain data in the MnSCU system. In mid fiscal year 1997 it switched primarily to the MnSCU system with the result that neither accounting system was able to summarize accurately the financial activity of the bookstore for 1997.

The following corrective actions will be taken:

- Since July 1, 1997 the college has been using the MnSCU accounting system as the point of original entry for all financial activity for all accounts.
- The Finance Director will complete the correction of information as reflected on the MnSCU accounting system for the bookstore for prior years by June 1,1998. Included will be the reconciliation of cash in bank to the cash per MnSCU accounting.

Finding 14. The college did not transfer funds to the state account timely.
The college agrees with this finding. The Finance Director has begun making more frequent and timely deposits, as well as regularly monitoring the balances to ensure that there are adequate funds to support the payroll costs as the costs is incurred.

Finding 15. The bookstore did not adequately pursue collection on certain overdue receivables.
The college agrees with this finding. To remedy this finding the college will do the following:

- The bookstore manager will obtain written approval from any sponsoring organization before allowing students to charge textbooks to the organization.
- The bookstore manager will follow up on a timely basis on any outstanding receivables.

Finding 16. The college did not verify the accuracy of cafeteria income.
The college agrees with this finding and effective immediately, the Finance Director will periodically review the documentation supporting the statement the cafeteria vendor provides to the college.

Finding 17. Two financial aid office employees and a student worker falsified payroll timesheets resulting in payment to the student for hours not worked.
The college agrees with this finding and has requested that the Attorney General investigate this matter and pursue appropriate civil and/or criminal remedies. The college will work with the Office of the Attorney General in resolving all outstanding issues.

Finding 18. The college made questionable judgements when determining institutional work-study eligibility.
The college agrees with this finding and will take the following corrective actions:

- By June 1, 1998 the Vice President for Student and Academic Affairs will complete a review of the institutional work-study program.
- Based on the findings from that review, the college will make any necessary revisions effective for the 1998-99 academic year.

- In the future the Finance Director will review the use of institutional work-study funds each semester to ensure compliance with policy.

Finding 19. MnSCU did not report potential instances of financial impropriety by North Hennepin Community College employees to the Office of the Legislative Auditor, as required by state law.
The college agrees with this finding. In the future all instances of potential financial impropriety will be promptly and appropriately reported both to the Office of the Legislative Auditor and to the MnSCU Office of Internal Auditing.

Chapter 7 - Federal Student Financial Aid

Finding 20. The college did not reconcile its Perkins loan balance to MnSCU's centralized loan management system.
The college agrees with this finding and will do the following:

- The Finance Director will work with the MnSCU Loan Collection Department to reconcile the balances. This will be fully accomplished by August 1, 1998.

Sincerely,

Ann Wynia
President

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