

Fond du Lac Tribal and Community College

Financial Audit

For the Two Fiscal Years Ended June 30, 1997

July 1998

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

98-39



STATE OF MINNESOTA
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Mr. Lester Jack Briggs, President
Fond du Lac Tribal and Community College

We have audited Fond du Lac Tribal and Community College for the period July 1, 1995, through June 30, 1997, as further explained in Chapter 1. Our audit scope included the following areas: general financial management, tuition and fee revenues, payroll expenditures, supply and equipment purchases, and grant activities. We also reviewed the college's internal controls over federal student financial aid for fiscal year 1998. The following Summary highlights the audit objectives and conclusions. We discuss our audit 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 Fond du Lac Tribal and Community College complied with 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 ensuring compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Fond du Lac Tribal and Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 1998
Report Signed On: June 29, 1998

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SUMMARY

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No. 98-39

Background

Fond du Lac Tribal and Community College began operations in 1987. It operated as part of the Arrowhead Community College Region until June 30, 1995. On July 1, 1995, the college began operating independently as part of the Minnesota State Colleges and Universities (MnSCU) when the state merged the community colleges, state universities, and technical colleges. The college finances its operations through student tuition, fees, and state appropriations. It also receives funding from the federal government based on its federal tribal college status. Mr. Lester Jack Briggs has been the college president since its inception.

Our audit scope covered the period from July 1, 1995 through June 30, 1997. We audited general financial management controls, tuition and fees, payroll, supplies and equipment, and grants. We also reviewed the administration of state and federal student financial aid programs for fiscal year 1998.

Selected Audit Areas and Conclusions

Fond du Lac Tribal and Community College operated within its available resources. Generally, the college properly recorded all of its state treasury account activity on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. However, the college did not record all local bank account activity on MnSCU accounting. In addition, the college maintained a duplicative internal accounting system. The college also did not adequately collateralize one of its local bank accounts. Also, access controls to the student information system need improvement and the college had not formalized an agreement with its foundation.

The college designed and implemented controls in the business office and the financial aid office to ensure that assets were safeguarded, transactions authorized, and financial activity accurately reported in the accounting systems. However, the college did not adequately separate duties over continuing education receipts, reconcile tuition reported on MnSCU accounting to MAPS, or verify tuition waivers issued to waivers authorized. The college needs to periodically check inventory to validate the accuracy of its fixed asset records and to safeguard its purchases at time of receipt. The college made an inappropriate payment under the Bureau of Indian Affairs (BIA) grant and did not reimburse the system office for federal workstudy payroll expenditures on a timely basis.

In its response to the audit report, the college agreed with 11 of the 12 findings and is taking corrective action. Although the college acknowledges that certain federal grants are not accounted for on MnSCU accounting, it believes that federal requirements dictate that the accounting activity and business affairs of the Tribal College must be separate.

Fond du Lac Tribal and Community College

Table of Contents

	Page
Chapter 1. Introduction	1
Chapter 2. Financial Management	3
Chapter 3. Tuition, Fees, and Other Revenue	9
Chapter 4. Payroll, Supplies, and Equipment	13
Chapter 5: Federal Grants	17
Chapter 6: Student Financial Aid	19
Status of Prior Audit Issues	23
Fond du Lac Tribal and Community College Response	25

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Dale Ogren, CPA, CISA	Auditor-in-Charge
Fubara Dapper, CPA	Senior Auditor
Connie Stein	Staff Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Fond du Lac Tribal and Community College and the MnSCU system office at an exit conference held on June 15, 1998:

MnSCU System Office:

Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
Alan Finlayson	Director of System Accounting
Teri Welter	Director of Campus Accounting

Fond du Lac Tribal and Community College:

Lester Jack Briggs	President
Terry Leonidas	Director of Fiscal Operation

Fond du Lac Tribal and Community College

Chapter 1. Introduction

Fond du Lac Tribal and Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. MnSCU began operations on July 1, 1995, when the state of Minnesota merged the community colleges, state universities, and technical colleges into one system of higher education. The college was originally chartered in 1987 as the Fond du Lac Community College Center by the Fond du Lac Reservation Business Committee. It operated as part of the Arrowhead Community College Region through June 30, 1995. In 1994, the legislature established the Center as a full campus.

Fond du Lac Tribal and Community College is both a tribal college and a community college. It is guided by a unique governance relationship between the MnSCU board of trustees and the Fond du Lac Tribal and Community College board of directors as specified in Minn. Stat. Section 136F.12. Fond du Lac Tribal and Community College is one of approximately 30 tribal colleges in the United States, but the only one that is part of a state college system. In 1994, the U.S. Department of the Interior, Bureau of Indian Affairs (BIA) reconfirmed Fond du Lac Tribal and Community College as a tribal college under the Tribal Community College Act. Also, Congress passed legislation giving Fond du Lac status as a land grant institution.

As provided in the college's mission statement, the college is to "acknowledge the right of each individual to achieve a sense of self-actualization and to provide for the building of educational and civic relationships through the medium of education and lifelong learning. Fond du Lac Tribal and Community College will enhance the academic, economic, and cultural growth of the community through programs of educational excellence and a commitment to celebrate the diverse cultures of our community." The Fond du Lac Tribal and Community College is accredited separately by the Commission on Institutions of Higher Education of the North Central Association of Colleges and Schools.

The college offers several two year degree programs, including a fully transferable Associate in Arts degree with specializations in accounting, business administration, liberal arts, Ojibwe culture, and law enforcement. The college also offers an Associate of Science degree in human services. According to MnSCU records, Fond du Lac Tribal and Community College served enrollment of approximately 473 full-year equivalent (FYE) students during the 1996-97 school year. Mr. Lester Jack Briggs is the college president.

Fond du Lac Tribal and Community College received funding in the form of grants from the Bureau of Indian Affairs, the National Science Foundation, and the U.S. Department of Labor's School-to-Work Program during the audit period. These grants were awarded to the college based solely on its status as a tribal college. The college considers the financial activity associated with the above grant funds to be tribal college activity. Total tribal college activity during the audit period was approximately \$1.2 million.

Our audit scope did not include a review of the grants received from the National Science Foundation (NSF) or the U.S. Department of Labor's School-to-Work Program. At the time of our review, the Office of Inspector General, National Science Foundation, was completing an

Fond du Lac Tribal and Community College

audit of the NSF grant for the period August 15, 1993 through March 31, 1997. In addition, the U.S. Department of Labor issued its financial management review on the School-to-Work Program on February 5, 1998. It covered the period August 1, 1994 to August 31, 1997. We did a limited review of the financial activity of the college associated with the grant funds received from the Bureau of Indian Affairs, as further discussed in Chapter 5. The BIA grant funds were being audited as a part of the Fond du Lac Reservation under the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments."

Table 1-1 provides a summary by fund type of the college's sources and uses of funds for the fiscal year ended June 30, 1997, as presented on MnSCU accounting. The table does not include financial activity relating to the aforementioned grants to the tribal college. See Finding 1 in Chapter 2.

Table 1-1
Fond du Lac Tribal and Community College
Sources and Uses of Funds
Fiscal Year 1997

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>
Beginning Fund Balance	\$ 10,285	(\$ 22,193)	\$118,156
State Appropriation	<u>2,085,596</u>		
College Revenues:			
Tuition and Fees	1,041,625		
Federal Grants		461,483	
Bookstore			164,688
Other	<u>775,167</u>		<u>18,044</u>
Subtotal Revenues	<u>\$1,816,792</u>	<u>\$461,483</u>	<u>\$182,732</u>
Total Resources	<u>\$3,912,673</u>	<u>\$439,290</u>	<u>\$300,888</u>
Expenditures:			
Employee Payroll	\$2,275,432	\$ 33,072	\$ 20,110
Financial Aid		377,012	
Bookstore			\$117,896
Supplies/Equipment	303,300		
Other	<u>954,371</u>	<u>33,429</u>	<u>26,383</u>
Total Expenditures	<u>\$3,533,103</u>	<u>\$443,513</u>	<u>\$164,389</u>
Ending Fund Balance	<u>\$ 379,570</u>	<u>\$ (4,223)</u>	<u>\$136,499</u>

Note 1: All funds are presented on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities 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 \$96,927.

Note 2: Table 1-1 does not include approximately \$700,000 of financial activity relating to grants to the tribal college from the Bureau of Indian Affairs, National Science Foundation, and the U.S. Department of Labor.

Source: MnSCU Accounting System as of January 6, 1998.

Fond du Lac Tribal and Community College is affiliated with the Fond du Lac Tribal and Community College Foundation. It was incorporated in January of 1996 and obtained 501 (c)(3) status in November 1997. The foundation has its own board of directors, articles of incorporation, and bylaws. The foundation maintains its own financial records and accounts.

Chapter 2. Financial Management

Chapter Conclusions

Fond du Lac Tribal and Community College operated within its available resources. Generally, the college properly recorded all of its state treasury account activity on the MnSCU and MAPS accounting systems in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. However, the college did not record all local bank account activity on MnSCU accounting. In addition, the college maintained a duplicative internal accounting system. The college did not adequately collateralize one of its local bank accounts. Also, access controls to the student information system need improvement and the college had not formalized an agreement with its foundation.

MnSCU receives the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocates appropriated funds to Fond du Lac Tribal and Community College, and all universities and colleges, based on an allocation formula. As shown in Table 1-1, MnSCU allocated approximately \$2.1 million to the college for fiscal year 1997. In addition, the college, like other institutions, 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 record all its financial activities on MnSCU accounting.

The state of Minnesota also implemented a new computerized accounting system and a new personnel/payroll system in 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 institutions also administer funds in local bank accounts, separate from the state treasury. During the audit period, the college maintained seven checking accounts and one savings account to account for local activity. Federal grants the college received as a result of its tribal college status were maintained in three of those checking accounts. The four remaining local checking accounts were for imprest cash, Federal financial aid, the All College Fund (state depository account) and the bookstore. The savings account also was for the bookstore.

Fond du Lac Tribal and Community College

The college contracts with the Northeast Service Unit (NESU) to perform certain payroll and human resource functions. NESU uses the MnSCU's Personnel/Payroll System (SCUPPS) to manage personnel and payroll. In addition, NESU performed certain purchasing and payment processing functions for the college. NESU did not perform any administrative functions related to the federal grants received for tribal college activities.

Audit Objectives and Methodology

Our review of Fond du Lac Tribal and Community College's overall financial management focused on the following questions:

- Did Fond du Lac Tribal and Community College operate within its available resources?
- Did Fond du Lac Tribal and Community College properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Fond du Lac Tribal and Community College properly account for and control its local bank accounts?
- Did Fond du Lac Tribal and Community College have an appropriate relationship with related organizations?

To answer these questions, we interviewed college personnel to gain an understanding of the MnSCU accounting system and the extent it was utilized for each of the individual program areas discussed in the following chapters. We reviewed transactions posted to MnSCU accounting to determine if Fond du Lac Tribal and Community College properly recorded revenue and expenditures for both state treasury activities and certain local accounts. We inquired about certain management controls in place at NESU. We also interviewed college personnel and reviewed system security reports to determine if the college limited access to its computerized business systems. In addition, we reviewed the college's budgetary process with the current college administrators. We also reviewed the relationship of the college to its foundation. Finally, we reviewed all local bank account reconciliations to either MnSCU accounting or the college's internal accounting system.

Conclusions

Fond du Lac Tribal and Community College operated within its available resources. Generally, the college properly recorded all of its state treasury account activity on MnSCU and MAPS accounting in a timely manner. The college properly accounted for and controlled its local bank accounts and completed bank account reconciliations timely. However, as noted in Finding 1, the college did not record all local bank account activity on MnSCU accounting. In addition to MnSCU accounting, the college maintained a duplicative internal accounting system as discussed in Finding 2. We noted that one of the college's local bank accounts was not adequately collateralized as discussed in Finding 3. In addition, access controls to the student information system need improvement, as discussed in Finding 4. Also, the college had not formalized an agreement with its foundation as explained in Finding 5.

Fond du Lac Tribal and Community College

1. Certain federal grants were not accounted for on MnSCU accounting.

Fond du Lac Tribal and Community College considers certain federal funding sources to be dedicated to the tribal component of the college. The college did not account for these federal grants on MnSCU accounting. In addition, these financial activities were not included in the annual financial statements prepared for MnSCU. Under various Federal laws, Fond du Lac Tribal and Community College applied to specific Federal agencies for grants to fund Native American initiatives at the college. The college received grants offered by the Bureau of Indian Affairs (BIA), the National Science Foundation (NSF), and the U.S. Department of Labor's School-to-Work Program. These grant funds were not available to other MnSCU institutions. However, all students of the college benefit from the funding. In addition, all tribal colleges across the United States were recently afforded land grant status. This status has created the potential for additional funding for Fond du Lac Tribal and Community College, primarily from the U.S. Department of Agriculture.

The following summary highlights grants received during each fiscal year ending June 30:

<u>Grant</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
BIA	\$154,330	\$305,695	\$460,025
NSF	\$182,993	\$185,593	\$368,586
STW	\$203,963	\$200,000	\$403,963

These grant funds were maintained in local bank accounts and accounted for by the college on an internal accounting system. As a result, MnSCU management had no knowledge of the extent of the grant activity or the total funds available to the college. MnSCU requires each college and university to record all its financial activities on MnSCU accounting. Minn. Stat. Section 136F.71 Subd. 1 provides in part that "All receipts of every kind, nature, and description, including student tuition and fees, all federal receipts, aids, contributions, and reimbursements, in all the state colleges and universities are appropriated to the board..." In addition, item 3 of the Memorandum of Understanding between the MnSCU Board of Trustees and the Tribal College Board of Directors provides that "Fond du Lac Tribal and Community College will develop appropriate mechanisms to meet the accounting and reporting requirements of the State of Minnesota and the federal government."

Recommendation

- *Fond du Lac Tribal and Community College should account for all financial activity, including all federal receipts, on MnSCU accounting.*

2. Fond du Lac Tribal and Community College maintained a duplicative internal accounting system.

Fond du Lac Tribal and Community College records all of its financial activities into its internal accounting system. This internal accounting system, while all inclusive of college activities, places additional demands on the business office to maintain two accounting systems. Currently, most transactions affecting the college are entered twice; once into the internal accounting system and once into MnSCU accounting. The college is required to record all financial activity

Fond du Lac Tribal and Community College

on the MnSCU accounting system. The need for an internal accounting system in addition to MnSCU accounting is not apparent. It is also inefficient for the college to maintain it. In a memorandum dated September 17, 1996, the Chancellor directed all college and university presidents to "update the MnSCU accounting system regularly, and eliminate separate accounting systems for local funds."

Recommendation

- *The college should discontinue the use of its internal accounting system and record all financial activity on the MnSCU accounting system.*

3. Fond du Lac Tribal and Community College did not require collateral for one of its local bank accounts.

The college did not require the pledge of collateral to secure funds for its All College local bank account. This account represents the state treasury account from which funds were swept to the state treasury. In comparing activity in this account for the month of April 1997 to April 1998, we noted an increase in the number of days in which the account exceeded \$100,000. During April 1997, this balance was exceeded on two successive days only. In April 1998, the account balance ranged from a low of \$111,590 to a high of \$199,037. As a result, the cash balances in the local bank account above the Federal Deposit Insurance Corporation's (FDIC) \$100,000 insured amount, were placed at risk. The college did maintain the appropriate collateral for its other local bank accounts.

In order for the college's money to be properly protected, the college should ensure that the bank provides sufficient collateral. Minnesota Statutes require local government entities to establish collateral on their accounts equal to "at least ten percent more than the amount on deposit plus accrued interest at the close of the business day." The college should require similar collateral levels on its deposits.

Recommendation

- *Fond du Lac Tribal and Community College should ensure it requires sufficient pledged collateral to secure cash balances in all local bank accounts.*

4. Fond du Lac Tribal and Community College access controls to the student information system need improvement.

Fond du Lac Tribal and Community College did not adequately administer and control access to the computerized College Information System (CIS). The following weaknesses were noted in the security administration for the registration and accounts receivable system:

- Logon IDs for terminated or transferred employees had not been removed from the active security tables. The college did not establish a process to remove employee access to the system once an employee terminated or transferred. Human resources should notify the security administrator when an employee terminates.
- Two CIS users had been assigned incompatible security profiles resulting in weakened separation of duties. Separation of registration and tuition collection functions is critical to internal control. Security reports indicated that college staff had the capability to update transactions for both the registration and the tuition collection processes.

Fond du Lac Tribal and Community College

- The college security administrator did not periodically review system user security reports. Even though security reports had been generated, there was no indication that they had been reviewed by the college. The security report identified the previously mentioned transferred employees, as well as office staff, who had the capability to update registration and tuition receipt records.

Recommendation

- *Fond du Lac Tribal and Community College should improve system access controls by:*
 - *canceling user IDs for terminated or transferred employees;*
 - *restricting access to the student information systems based on job responsibilities; and*
 - *periodically reviewing system user security reports.*

5. Fond du Lac Tribal and Community College did not have a written agreement with its foundation.

Fond du Lac Tribal and Community College had not formalized and signed an agreement with its foundation. MnSCU Board of Trustees Policy 8.3 provides in part that:

"The chancellor and each college or university president may contract with a foundation whose primary purpose is to support the college, university or system. The college may agree to provide administrative support to the foundation for the purpose of securing and managing gifts and grants given to the foundation for the benefit of the college. The contract must require that, in return for administrative support, the foundation will contribute to the college, an amount equal to or more than the value of the administrative support provided by the college to the foundation."

The foundation must be recognized by all as a separate entity from the college. Any transactions conducted between the college and the foundation must represent an arms length transaction between two separate entities.

There should be an agreement that specifies the use of college resources in the operation of the foundation and the use of foundation funds for college activities.

Recommendation

- *Fond du Lac Tribal and Community College should formalize an agreement with its foundation to address issues such as the use of state resources , liabilities of the parties, and use of foundation funds. In addition, the foundation should maintain a separate set of accounting records for its operations that would be subject to an annual audit.*

Fond du Lac Tribal and Community College

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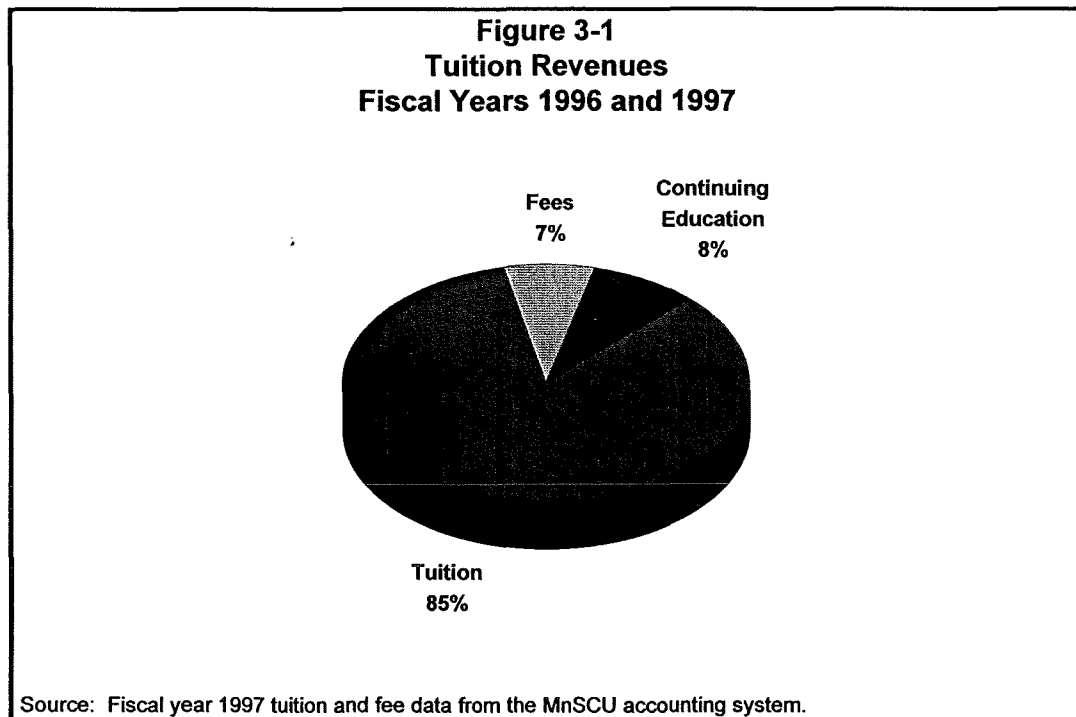
Chapter 3. Tuition, Fees, and Other Revenue

Chapter Conclusions

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded and accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and management's authorization. However, the college did not adequately separate duties over continuing education receipts. In addition, the college did not reconcile tuition reported on MnSCU accounting to MAPS. The college also did not verify tuition waivers issued to waivers authorized.

Fond du Lac Tribal and Community College collected tuition and fees each quarter from students enrolled in campus programs and continuing education classes. The college registered, billed, and collected tuition and fees through the College Information System (CIS) for all classes. For fiscal year 1996, the resident tuition rate was \$42.25 per credit plus miscellaneous fees resulting in \$954,000 in tuition and other revenues. For fiscal year 1997, the resident tuition rate was \$43.85 per credit plus miscellaneous fees resulting in \$1,041,000 in tuition and other revenues. The college required the student to obtain a fee statement from the registration office. The tuition office collected amounts from students and offset any financial aid in the CIS. The college also offered non-credit continuing education classes.

Figure 3-1 shows a breakdown of tuition revenues for fiscal years 1996 and 1997:



Fond du Lac Tribal and Community College

Audit Objectives and Methodology

Our review of Fond du Lac Tribal and Community College's tuition, fees, and other revenues focused on the following question:

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

To answer this question, we interviewed college staff to gain an understanding of the controls over billing, collecting, depositing, and recording 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 due, and properly recorded revenue transactions on the MnSCU accounting system. We reviewed the tuition and fees collected by the continuing education department. In addition, we reviewed the college's comparison of tuition and fee revenues recorded in the MnSCU accounting system to the credits awarded on the Collegiate Information System (CIS) for reasonableness.

Conclusions

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, and accurately reported in the accounting records, and that collections were in compliance with applicable legal provisions and management's authorization. However, the college did not adequately separate duties over continuing education receipts, as explained in Finding 6. In addition, the college did not reconcile tuition reported on MnSCU accounting to MAPS as discussed in Finding 7. The college also did not reconcile tuition waivers issued to waivers authorized as noted in Finding 8.

6. Fond du Lac Tribal and Community College did not adequately separate duties over continuing education receipts.

The college had one employee in its continuing education department who registered, billed, and collected tuition for continuing education classes. That employee also forwarded the registration information to the admissions office and delivered the receipts to the business office. This process places incompatible responsibilities on the same individual.

The continuing education department provided workshops and classes tailored to the specific needs of area residents and businesses. The department also provided programs for area companies that required work related certifications. Continuing education revenues were \$83,000 for fiscal year 1996, and \$85,000 for fiscal year 1997.

Fond du Lac Tribal and Community College

Recommendation

- *The college should separate registration and tuition collection responsibilities for continuing education receipts or complete an independent reconciliation.*

7. Fond du Lac Tribal and Community College had not reconciled tuition receipts recorded on MnSCU accounting to MAPS.

The college did not reconcile its tuition and fee receipts as reported on the MnSCU accounting system to MAPS. This reconciliation is necessary to detect transactions that are not recorded consistently on the two systems. The correct recording of financial activity is essential for effective management and financial reporting purposes.

Recommendation

- *Fond du Lac Tribal and Community College should reconcile tuition recorded on MnSCU accounting to MAPS.*

8. Fond du Lac Tribal and Community College did not verify tuition waivers issued to waivers authorized.

Fond du Lac Tribal and Community College did not reconcile tuition waivers issued to waivers authorized. Tuition waivers were issued to employees of the college and their children as part of negotiated benefit packages. When a waiver is requested, it is authorized by a college official and entered in CIS by the admissions office. The student given a waiver is not assessed tuition and fees in CIS. The CIS produces a report which summarizes waivers actually issued. This report should be verified to waivers authorized to ensure that only authorized waivers reduced tuition.

Recommendation

- *Fond du Lac Tribal and Community College should reconcile tuition waivers issued to waivers authorized.*

Fond du Lac Tribal and Community College

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Chapter 4. Payroll, Supplies and Equipment

Chapter Conclusions

Fond du Lac Tribal and Community College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized, processed, and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that supply and equipment expenditures were accurately reported in the accounting records. However, the college needs to periodically check inventory to validate the accuracy of its fixed asset records. Also, the college did not adequately safeguard its purchases at time of receipt.

Payroll

Payroll represents the largest expenditure for Fond du Lac Tribal and Community College. The college's payroll expenditures totaled \$2.15 million in fiscal year 1996 and \$2.39 million in fiscal year 1997. During fiscal year 1996 and 1997, the college employed approximately 110 staff, consisting of classified and unclassified employees, and full-time and adjunct faculty. College employees belong to various compensation plans, including the American Federation of State, County, and Municipal Employees (AFSCME), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Excluded Administrators Plan, the Commissioner's Plan, and the Minnesota Community College Faculty Association (MCCFA).

During fiscal year 1996, the college used the state's personnel and payroll system (PPS) and the State Colleges and Universities Personnel and Payroll System (SCUPPS) to process payroll information. SCUPPS stores pay rate information and bargaining agreement history. PPS contained pay rate information and calculated the amounts paid employees. In October 1996, the college began processing payroll information in the state's new SEMA4 payroll system while continuing to use SCUPPS. The college used SEMA4 to track leave accruals for classified employees. The college used manual records to track faculty leave accruals.

Fond du Lac Tribal and Community College contracts with the Northeast Service Unit (NESU) to process its payroll. College staff collect employee time sheets and verify that they were properly authorized. The college then forwards the time sheets to NESU to be processed. NESU had separate human resource and payroll sections to administer personnel and payroll

Fond du Lac Tribal and Community College

transactions. NESU's human resource staff record the college's staff appointments and assignments in SCUPPS. NESU's payroll staff enter time sheet information into SEMA4.

Audit Objectives and Methodology

Our review of the 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 and 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 college staff and Northeast Service Unit staff to gain an understanding of the internal control structure over the payroll and personnel process. We performed analytical procedures on the total population of payroll financial activity during the audit period. We also tested a sample of payroll expenditures to ensure the college processed authorized transactions, properly recorded the transactions in the appropriate accounting systems, and complied with the provisions of applicable bargaining agreements.

Conclusions

Fond du Lac Tribal and Community College designed and implemented controls to provide reasonable assurance that payroll expenditures were properly authorized and processed and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Supplies and Equipment

Fond du Lac Tribal and Community College purchased supplies and equipment totaling \$185,000 in fiscal year 1996, and \$274,000 in fiscal year 1997. The college contracted with NESU for certain purchasing and payment processing services.

The college used requisitions and purchase orders for supply and equipment purchases. College staff completed a requisition form that management reviewed for propriety and availability of funds prior to initiating the purchase. The requisition was forwarded to NESU to be processed. NESU prepared a purchase order document and entered data from that purchase order into the MnSCU accounting system. When Fond du Lac Tribal and Community College received the vendor's invoice, the business office compared the invoiced item and the amount of the invoice to the purchase order and verified that the college had received the goods. The business office then sent the invoice to NESU to process the payment to the vendor through the MnSCU accounting system. For purchases of fixed assets, NESU assigned an asset number and entered the items into the inventory system. The college business office affixed a state fixed asset sticker to the item.

Fond du Lac Tribal and Community College

Audit Objective and Methodology

Our review of the college's purchases of supplies and equipment focused on the following question:

- Did the college design and implement internal controls to provide reasonable assurance that it accurately reported supply and equipment expenditures in the accounting records, adequately safeguarded fixed assets from theft or loss, and complied with material finance-related legal provisions?

To answer this question, we interviewed college staff and Northeast Service Unit staff to gain an understanding of the internal control structure over the purchasing and payment processes. We reviewed supply and equipment expenditures to determine if they were properly authorized, processed, and recorded. We also reviewed supply and equipment expenditures to determine if the college complied with material finance-related legal provisions. Finally, we reviewed the college's process to record and review fixed assets.

Conclusions

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that supply and equipment expenditures were accurately reported in the accounting records. However, the college needs to periodically check inventory to validate the accuracy of its fixed asset records as discussed in Finding 9. Also, the college did not adequately safeguard its purchases at time of receipt, as explained in Finding 10.

9. The college did not independently verify its fixed asset records.

Fond du Lac Tribal and Community College had not conducted a complete physical inventory to validate the accuracy of its fixed asset records. The Northeast Service Unit produced a fixed asset master list identifying the college's assets. The master list included the building location the asset was assigned to, a description of the asset, the date acquired, the cost, and the asset number. MnSCU procedures require the college to record fixed assets costing over \$2,000 in the inventory records. In order to ensure the accuracy of its fixed asset records, the college should do a periodic physical inventory. Without a periodic inventory of fixed assets, theft or misuse of those items could go undetected.

Recommendation

- *The college should conduct a periodic physical inventory of its fixed assets to verify the accuracy of its inventory records.*

Fond du Lac Tribal and Community College

10. The college did not adequately safeguard assets held temporarily in its general receiving area.

The college received its purchases of supplies and equipment through an unsecured receiving area. This unsecured area was the central receiving point for the college and was directly accessible to the outside, two classrooms and the main hallway. Business office staff signed for the deliveries as they came in. However, packages were left in this unsecured area until the maintenance department could deliver them to the appropriate location.

Recommendations

- *The college should provide measures to ensure that assets and goods received are adequately safeguarded to deter loss or theft.*

Chapter 5. Federal Grants

Chapter Conclusions

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that Student Support Services and BIA grant expenditures were properly authorized and accurately recorded in either MnSCU accounting or the internal accounting system. In addition, for the items tested, the college complied with material finance-related legal provisions. However, an inappropriate payment under the BIA grant was made to an employee.

Fond du Lac Tribal and Community College received a number of federal grants during the audit period. The largest federal grants received included those from the National Science Foundation (NSF) and the School-to-Work Program of the U.S. Department of Labor. As discussed in Chapter 1, these grant programs had been audited by their respective federal grantor agencies and, therefore, we excluded them from our audit scope.

The Student Support Service Grant from the Office of Postsecondary Education, U.S. Department of Education, was the only federal grant that the college accounted for on MnSCU accounting. During the audit period, grant funds received were approximately \$350,000. The grant provided opportunities for academic development, assisted students with basic college requirements, and served to motivate students towards the successful completion of their post secondary education. The goal of the Student Support Service grant was to increase the college retention and graduation rates of its participants and facilitate the process of transition from one level of higher education to the next. Grant expenditures included salaries, indirect costs, travel, equipment, and supplies.

The Bureau of Indian Affairs grants were used to support and encourage tribal college operations, and to ensure continued and expanded educational opportunities for Indian students. BIA grant funds received during the audit period were approximately \$460,000. The BIA grant reimburses the college a percentage of its salary and fringe benefit costs for administrators and clerical staff, and also a percentage of faculty payroll costs based on actual enrollment counts of Native American students. The BIA grant funds were maintained in a separate checking account, along with numerous other small federal grants, and were accounted for on an internal college accounting software package. As discussed in Finding 1 in Chapter 2, financial activities for the BIA grant were not recorded on MnSCU accounting.

Fond du Lac Tribal and Community College used requisitions and purchase orders for all expenditures from grant funds. However, for the Student Support Services grant, the process included the involvement of the Northeast Service Unit (NESU). Initially, college staff completed a requisition form that management reviewed and authorized if funds were available. The requisition was forwarded to NESU, who prepared a purchase order and entered the data into MnSCU accounting. When the college received the vendor's invoice, the business office compared the invoice item and the amount of the invoice to the purchase order and verified that

Fond du Lac Tribal and Community College

the college had received the goods. The business office then sent the invoice to the Northeast Service Unit for payment and subsequent posting to MnSCU accounting. In contrast, BIA grant expenditures, as well as other federal grant expenditures, were processed by the college on the separate accounting system maintained by the college.

Audit Objectives and Methodology

Our review of the college's BIA and Student Support Services grants focused on the following question:

- Did the college design and implement internal controls to provide reasonable assurance that expenditures of federal grant funds were properly authorized and accurately recorded in the accounting records, and that payments were in compliance with applicable legal provisions and management's authorization?

To answer this question, we interviewed college staff and Northeast Service Unit staff to gain an understanding of the internal control structure over the grant process for the Student Support Services grant. We also analyzed grant data to determine unusual trends and reviewed source documents to determine proper authorization for payments. In addition, we interviewed college staff to gain an understanding of the internal control structure over the BIA grants that were not recorded on MnSCU accounting. For the BIA grant expenditures, we also reviewed source documents to determine proper authorization for vendor payments and reimbursements to the college for salary and fringe benefit costs.

Conclusion

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that Student Support Services and BIA grant expenditures were properly authorized and accurately recorded in either MnSCU accounting or the internal accounting system. In addition, for the items tested, the college complied with material finance-related legal provisions. However, we noted that an inappropriate payment under the BIA grant was made to an employee, as discussed in Finding 11.

11. Fond du Lac Tribal and Community College paid a state employee under contract while the employee was still on the state's payroll.

A Fond du Lac Tribal and Community College employee was inappropriately paid for a short time period during which the employee was both a state employee and under contract with the college. This occurred during the period June 17 -30, 1996. During that period, the employee was on the state's payroll system and was also under contract by the college. The contract with the employee was for the performance of normal duties during a period of transition. The employee was scheduled to take an extended leave of absence. However, the contract started prior to the end of employment with the college. In addition to the employee's state salary, the college paid \$454 out of BIA grant funds to the employee for services performed during this period.

Recommendation

- *Fond du Lac Tribal and Community College should require the employee to repay \$454 received under contract while also employed by the college.*

Chapter 6. Student Financial Aid

Chapter Conclusions

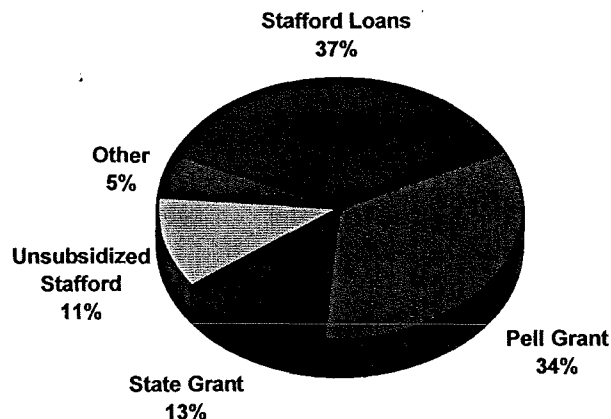
Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that fiscal year 1998 financial aid transactions were authorized and properly recorded. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, we found the college did not reimburse the system office for federal workstudy payroll expenditures on a timely basis.

Fond Du Lac Tribal and Community College participated in the following student financial aid programs:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (includes Stafford subsidized and unsubsidized loans) (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Education Opportunity Grant (SEOG) Program (CFDA #84.007)
- Minnesota State Grant Program

We reviewed each of these programs. Figure 6-1 shows financial aid expenditures by program for fiscal year 1997.

**Figure 6-1
Student Financial Aid by Programs
Fiscal Year 1997**



Note: "Other" consists of Federal Work-Study and Federal Supplementary Education Opportunity Grants.
Source: FISAP and Fond du Lac Tribal and Community College accounting records as of June 30, 1997.

Fond du Lac Tribal and Community College

Students complete an application for financial aid and submit it to a federal central processing unit. The college receives the information for the students that applied for enrollment. The college uses a software system called SAFE to package, award, and disburse student financial aid.

Students generally receive the Federal Pell Grant as the first source of assistance. Since the federal government does not limit Pell Grant awards to the college, all eligible students receive Pell Grants. The maximum Pell Grant award for each student during the 1997-98 award year equaled \$2,700.

Under the Federal Family Education Loan (FFEL) Program, private lenders provide the loan principal to eligible students while the federal government guarantees the loan. For Federal Subsidized Stafford Loans, the federal government pays interest to the lender while the student attends school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrues from the date of origination and the borrower assumes responsibility for the interest.

Under the Federal Work-Study (FWS) Program, jobs are available to students with financial need, allowing them to earn money to help defray educational expenses. These students earn a rate at least equal to the current federal minimum wage. It may be higher depending on the type of work done and the skills required. Students may earn an amount not to exceed their FWS award.

The Federal Supplemental Educational Opportunity Grant (SEOG) is for students with exceptional financial need. It gives priority to students who receive Federal Pell Grants. The college defines SEOG exceptional need as students with an Expected Family Contribution (EFC) of \$0.

Minnesota residents who demonstrated financial need could receive a Minnesota State Grant. The state makes the awards to undergraduate students attending schools in Minnesota who do not exceed the equivalent of 12 full-time quarters of attendance. Awards range from \$300 to \$3,500 per academic year.

Audit Objectives and Methodology

Our review of Fond du Lac Tribal and Community College's student financial aid programs focused on the following questions as of January 1998:

- Did the college design and implement internal controls to provide reasonable assurance that financial aid disbursements were properly authorized for eligible students and accurately reported in the accounting records?
- Did the college comply with applicable legal requirements over the management of cash and timely and accurate reporting of financial aid activity?

Fond du Lac Tribal and Community College

To answer these questions, we reviewed and tested compliance with requirements over student eligibility, awarding, packaging, and disbursing of federal financial aid. We also reviewed and tested compliance with federal regulations governing cash management and reporting expenditures.

Conclusions

Fond du Lac Tribal and Community College designed and implemented internal controls to provide reasonable assurance that fiscal year 1998 financial aid transactions were authorized and properly recorded. In addition, the college complied with federal student financial aid requirements over cash management and federal reporting. However, we found the college did not reimburse the system office for federal workstudy payroll expenditures on a timely basis as discussed in Finding 12.

12. The college did not reimburse the system office for federal workstudy payroll expenditures on a timely basis.

The college sends federal workstudy payroll information to the system office for processing bi-weekly. The system office processes the payroll and sends payroll checks to the college to be distributed to students. The payroll expenditures are charged to a clearing account. Each pay period, the college should reimburse the system office for the payroll expenditures using federal funds. We found that the college was only drawing down federal funds to cover federal workstudy payroll expenditures once a month. We also found that the college reimbursed the system office for federal workstudy payroll expenditures only twice during a four-month period.

Recommendation

- *Fond Du Lac Tribal and Community College should draw down federal workstudy funds each pay period and reimburse the system office on a timely basis.*

Fond du Lac Tribal and Community College

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Fond du Lac Tribal and Community College

Status of Prior Audit Issues As of March 27, 1998

Most Recent Audit

Legislative Audit Report 98-16, issued in March 1998, covered federal financial aid programs administered by the state of Minnesota in fiscal year 1997. We audit the federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report did not include any findings related specifically to the Fond du Lac Tribal and Community College.

Other Audit History

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs for fiscal year 1996 and contained no findings.

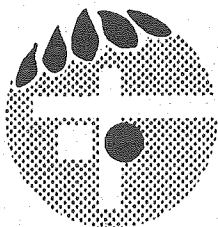
Legislative Audit Report 96-24, issued in June 1996, covered federal financial aid programs for fiscal year 1995. This report included one finding (#24) related to federal financial aid programs administered by Fond du Lac Tribal and Community College. The finding showed that the college did not adequately safeguard all incoming Federal Family Education Loan checks. This finding was resolved.

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.

Fond du Lac Tribal and Community College

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Fond du Lac Tribal & Community College

2101 Fourteenth Street • Cloquet, MN 55720
(218) 879-0800 • (218) 879-0821 (V/TDD) • FAX (218) 879-0814

June 25, 1998

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Fond du Lac Tribal and Community College for the period from July 1, 1995, through June 30, 1997. Fond du Lac Tribal and Community College's formal written response to the twelve audit findings is attached.

I want to thank Tom Donahue, audit manager; Dale Ogren, auditor -in-charge; and the entire audit team for their professionalism and willingness to work with campus staff to resolve outstanding findings and audit issues.

The college has grown significantly during this audit period. We are no longer a College Center, but a recognized Tribal and Community College within the MnSCU system. This relationship has created a unique institution that begins to meet the needs of native and non-native students in the area.

We are pleased with the audit report. The audit is an important step in improving and making significant progress on fiscal and organizational issues. Resolving audit findings is important as we grow in the future. Please contact me if you have questions regarding the attached response.

Sincerely,

Lester Jack Briggs
President

Attachment

**Response and Corrective Action Plan on Audit Findings
June 1998
Fond du Lac Tribal and Community College
Legislative Audit Report for Fiscal Years 1996 and 1997**

Finding # 1, Certain federal grants were not accounted for on MnSCU accounting.

The college acknowledges the fact that a majority of grants are accounted in another general ledger accounting system. We are not in agreement with this finding. Per federal requirements, the accounting activity and business affairs of the Tribal College must be separate. The attached letter from the United States Department of the Interior's Bureau of Indian Affairs reinforces that issue.

Person Responsible - Lester Jack Briggs, President

Finding # 2, Fond du Lac Tribal and Community College maintained a duplicative internal accounting system.

The college in principle agrees with this finding. We want to streamline the process and eliminate duplicated systems. Of concern is the depth and detail that our PC based system provides that is currently not available, or is perceived to be not available on the MnSCU accounting system (i.e. Accounts Receivable functions for students who are charging books at the bookstore).

Accounting activities are being reviewed to isolate the duplicated systems. A re-engineering of the accounting PC process will be developed to determine the needs. MnSCU accounting will be reviewed to determine if the needs can be met. We will be looking for advice as we move forward on this finding.

Responsible Person - Terry Leonidas, Director of Fiscal Operations

Effective Date - July 1999

Finding # 3, Fond du Lac Tribal and Community College did not require collateral for one of its local bank accounts.

The college has secured the required collateral on the local bank account. The attached letter documents the collateralization of the account.

Responsible Person - Terry Leonidas, Director of Fiscal Operations

Effective Date - June 1998

Finding # 4, Fond du Lac Tribal and Community College access controls to the student information system need improvement.

The college acknowledges that there needs to be better security controls regarding maintenance, and access to the student information system. A monitoring procedure that reviews the reports is also needed. Initial discussions have been developed with the Security Administrator. In conjunction with CIS supervisors, the Security Administer will review and adjust security access to the system. As a phase II MnSCU A/R implementation group, the college will mirror this CIS security scheme into MnSCU A/R.

Responsible Person - Loran Wappes, Security Administrator, Terry Leonidas, Director of Fiscal Operations

Effective Date - September 1998

Finding # 5, Fond du Lac Tribal and Community College did not have a written agreement with its foundation.

The college has adopted MnSCU's standard foundation agreement document. This agreement will be submitted for approval at the Tribal College Foundation board meeting in July.

Responsible Person - Shirley DeFoe, Director of Development

Effective Date - July 1998

Finding # 6, Fond du Lac Tribal and Community College did not adequately separate duties over continuation receipts.

The college has reviewed the procedures for receipting all continuing education payments. Currently, all funds received are handled in the Business Office. Registrations are processed in the Registrars office.

The college acknowledges the fact that there are instances when the Director of Continuing Education receives funds for workshops and CEU classes. Knowing that the Director will be handling funds in the future, an Actual Attendance Report document will be developed and implemented in July. This document will identify all participants, the cost, funding source and amount paid. This document will serve as the basis for reconciling credits awarded to amounts paid.

Person Responsible - Rae Sullivan, Accounting Technician

Effective Date - August, 1998

Finding # 7, Fond du Lac Tribal and Community College did not reconcile tuition receipts recorded on MnSCU accounting to MAPS.

The college will reconcile tuition recorded on MnSCU accounting to MAPS.

Person Responsible - Rae Sullivan, Accounting Technician

Effective Date - August, 1998

Finding # 8, Fond du Lac Tribal and Community College did not verify tuition waivers issued to waivers authorized.

The college is reviewing report queries from the CIS system in an attempt to secure total tuition waivers by individuals. This report will be matched with individual vouchers that have been approved by our Human Resource department.

Person Responsible - Judy Iwasko, Clerk 3 (functioning in a personnel aid capacity)

Effective Date - September, 1998

Finding # 9, The college did not independently verify its fixed asset records.

The college will conduct a formal physical inventory of equipment. The college will utilize MnSCU's fixed asset list during the physical inventory count.

Person Responsible - Terry Leonidas, Director of Fiscal Operations

Effective Date - September 1998

Finding # 10, The college did not adequately safeguard assets held temporarily in its general receiving area.

The college is reviewing the general receiving area in an attempt to safeguard assets from loss or theft. This review will focus on the physical receiving space, staff requirements, and procedures for receiving and distributing assets.

Person Responsible - Mark Bernhardson, Building Maintenance Forman

Effective Date - December 1998

Finding # 11, Fond du Lac Tribal and Community College paid a state employee under contract while the employee was still on the state's payroll.

The college will require that the former employee repay this amount.

Person Responsible - Lester Jack Briggs, President

Effective Date - July 1998

Finding # 12, The college did not reimburse the system office for federal work study payroll expenditures on a timely basis.

The college has instituted a plan to reimburse the system office by check on a bi-weekly basis. The plan has been implemented this spring. The actual reimbursement is done prior to the student payroll processing.

Person Responsible - Rae Sullivan

Effective Date - April 1998



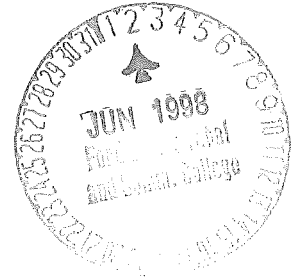
United States Department of the Interior

BUREAU OF INDIAN AFFAIRS
Washington, D.C. 20240

IN REPLY REFER TO:

Indian Education
MS: 3512-MIB

Lester Briggs, President
Fond du Lac Tribal College
2101 14th Street
Cloquet, MN 55720



Dear Mr. Briggs:

Thank you for your letter dated April 8, 1998, concerning the reporting of Bureau of Indian Affairs funds for the operation of Tribally Controlled Community Colleges.

According to the recommendations set forth in a letter dated February 10, 1994, to your institution's Board of Directors, which we reiterate here, the business affairs of the College must be separate from the State of Minnesota. Your institution is a separate entity. College expenses incurred on behalf of Fond du Lac Tribal College students must be readily identifiable and accounted for separately by the institution.

Your College receives funds from the Tribally Controlled Community College Assistance Act. These funds represent the core unrestricted operational funding of tribal colleges and universities eligible for funding under this Act. Control of these funds lies with the individual tribal colleges and universities. The separation of accounting procedures and business affairs is essential to ensuring your institution's accountability.

Thank you for the valuable contribution Fond du Lac Tribal College is making to Indian education.

Sincerely,

Joann Sebastian Morris
Director, Office of Indian Education Programs

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NNNNNNN
NORWEST BANK
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PLIDGE REPORT

COLLATERAL FOR: 734 FOND DU LAC COMMUNITY COLLEGE

DATE: JUNE 25, 1998

DEPOSITORY INSTITUTION: CLOQUET

SK	SECURITY	SEQ. NO.	ORIGINAL FACE	CURRENT FACE	DESCRIPTION	RATE	MATURITY	MOODY	SANDP	MARKET VALUE
01	31375DKJ4	002002	525,000.00	402,791.63	FNMA 311571	7.00	02/01/26	AAA	NR	411,006.90
*TOTAL XPL_CODE 734			525,000.00	402,791.63						411,006.90
*TOTAL XOWNER 142			525,000.00	402,791.63						411,006.90
*TOTAL AFFIL CLOQUET			525,000.00	402,791.63						411,006.90