Hibbing Community College

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

July 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-40

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STATE OF MINNESOTA
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Hibbing Community College

We have audited Hibbing 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 and other administrative expenses, state grants, 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. 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 Hibbing Community College complied with the provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the college is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Hibbing Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 24, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 8, 1998

Report Signed On: July 20, 1998

SUMMARY

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Hibbing Community College

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

Public Release Date: July 24, 1998 No. 98-40

Background Information

Hibbing Community College (HCC) is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when the state universities, community colleges, and technical colleges throughout the state merged under one governance structure. HCC is a two-year technical and community college. Dr. Anthony Kuznik is the president of the college.

Objectives and Conclusions

The objectives of our audit were to gain an understanding of the internal control structure over the accounting and reporting of financial activities of the college, and to determine if the college complied with material finance-related legal provisions. The areas covered by our audit were tuition, payroll and other administrative expenditures, and bookstore activities 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.

We concluded that HCC operated within its available resources. Generally, the college designed and implemented internal controls to provide reasonable assurance that the college recorded its state treasury and local account financial activities on the MnSCU and MAPS accounting systems in a timely manner. However, the college did not record federal financial aid on its accounting system timely. Finally, the college could improve controls over local bank accounts.

We found that HCC had several internal control weaknesses in administering federal student financial aid. The college did not perform certain key reconciliations, adequately separate awarding and disbursing functions, and ensure that eligible students received correct financial aid.

HCC generally accounted for tuition receipts properly. However, the college did not review administrative adjustments and failed to deposit receipts timely. Also, the college did not reconcile total tuition received to total credits issued, and they did not have adequate control over customized training receipts.

HCC designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were processed in compliance with applicable legal provisions and accurately recorded in the accounting records. However, we noted that the college did not independently verify its fixed asset records.

HCC designed and implemented internal controls to provide reasonable assurance that bookstore financial activities were properly recorded in the accounting records. However, the college should prepare an income statement to monitor its bookstore activity. In addition, the college should allocate all applicable costs to the bookstores including overhead.

HCC responded positively to the audit recommendations presented in the audit report. The college stated that it has already taken corrective action on many of the areas.

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Audit Participation

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

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Exit Conference

The following staff from Hibbing Community College and the MnSCU system office participated in the exit conference held on July 8 , 1998:

MnSCU System Office:	
Laura King	Vice Chancellor - Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
John Asmussen	Executive Director for MnSCU Internal Audit
Alan Finlayson	Director of System Accounting
Hibbing Community College:	
Anthony Kuznik	President
Ron Blakesley	Vice President of Administrative Services
Paul Hatch	Director of Financial Aid

Chapter 1. Introduction

Hibbing Community College (HCC), a technical and community college, is part of the Minnesota State Colleges and Universities (MnSCU). MnSCU began operations on July 1, 1995, when state universities, community colleges, and technical colleges throughout the state merged under one governance structure. MnSCU consolidated the Hibbing campus of Range Technical College and Hibbing Community College, which was part of the Arrowhead Community College Region, on July 1, 1996, to form Hibbing Community College. Dr. Anthony Kuznik is the president of the college.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for fiscal year ended June 30, 1997.

Table 1-1
Hibbing Community College
Sources and Uses of Funds
Fiscal Year 1997

	General Fund	Special Revenue Fund	Enterprise Funds
Beginning Balance	$ 237,452	$ 11,335	$ 888,522
State Appropriation	7,999,046		
College Revenues:			
Tuition and Fees	$ 2,849,133	$ 15,395	
Federal Grants		1,226,411	
Bookstore Sales			488,648
Other	622,716	142,133	201,812
Subtotal Revenues	$ 3,471,849	$1,383,939	$ 690,460
Total Resources	$11,708,347	$1,395,274	$1,578,982
Expenditures/Expenses:			
Employee Payroll	$ 7,904,043	$ 309,090	48,104
Financial Aid		960,321	
Administrative Expenses	1,436,745	39,110	13,409
Bookstore Purchases for Resale			428,628
Other Purchases for Resale			7,706
Supplies/Materials	730,741	19,879	887
Other	581,186	26,126	196,647
Total Expenditures	$10,652,715	$1,354,526	$ 695,381
Ending Fund Balance	$ 1,055,632	$ 40,748	$ 883,601

Note: Table 1-1 is presented on the budgetary basis of accounting. The 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 the books and compensated absence liabilities. The college's June 30, 1997, compensated absence liability is estimated at $316,774.

Source: MnSCU accounting records.

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HCC is affiliated with the Hibbing Community College Foundation, an autonomous, non-profit organization. By contract, the college provides administrative support to the foundation. In return, the foundation offers scholarships and funds other activities that benefit the public educational mission of the college. The financial statements of the foundation are audited annually by a private CPA firm. The foundation's last complete financial audit was for the fiscal year ended June 30, 1997.

Chapter 2. Financial Management

Chapter Conclusions

Hibbing Community College operated within its available resources. Generally, the college designed and implemented internal controls to provide reasonable assurance that the college recorded its state treasury and local bank account financial activities on the MnSCU accounting system in a timely manner. However, the college did not record federal financial aid on its accounting system timely, as discussed in Chapter 3. Finally, the college could improve controls over local bank accounts.

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

On July 1, 1995, MnSCU implemented a new computerized accounting system, MnSCU accounting, and a new personnel/payroll system, the State Colleges and Universities Personnel/Payroll System (SCUPPS). MnSCU uses these new accounting systems to manage its financial operations. MnSCU requires each college and university to 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 that began operations on July 1, 1995. The state's accounting system (MAPS) is the primary accounting system for funds appropriated to state agencies. MnSCU campuses use MnSCU accounting to initiate transactions that involve appropriated funds. MnSCU accounting transactions update the MAPS accounting system through a system interface. MAPS then generates state treasury warrants for state appropriated expenses.

MnSCU campuses also administer funds in local bank accounts, separate from the state treasury. These funds include student financial aid, agency accounts, and enterprise activities, such as the bookstore operations. HCC maintains eight local bank accounts, including one for the All College Fund. The college uses the All College Fund bank account as the state depository. Tuition receipts deposited into this account are transferred electronically to the state treasury. Transfers to the state treasury are based on the revenue transactions recorded on MAPS.

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Audit Objectives and Methodology

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

- Did the college operate within its available resources?
- Did the college design and implement controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?

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

Conclusions

Hibbing Community College operated within its available resources. Generally, the college designed and implemented internal controls to provide reasonable assurance that the college recorded its state treasury and local bank account financial activities on the MnSCU accounting system in a timely manner. However, the college did not record federal financial aid on its accounting system timely, as discussed in Chapter 3. Finally, the college could improve controls over local bank accounts as discussed in the following finding.

1. HCC needs to improve controls over local bank accounts.

HCC did not properly control some of its local bank accounts. HCC maintained eight active local bank accounts at four different banks. The college did not properly segregate the duties of certain bank account reconciliations from the receipt and disbursement functions. Concentration of these duties with the same employee increases the risk that errors and irregularities could occur and go undetected. HCC needs to ensure that bank reconciliations are performed independent of the transaction processing.

HCC has not reconciled two of its local bank accounts to MnSCU accounting timely. For example, HCC has not reconciled the All College Fund bank account from the bank statement to MnSCU accounting since June 30, 1997. Failure to reconcile local bank accounts to MnSCU accounting timely decreases the reliability of the financial information on the accounting system.

Finally, HCC has not determined the proper disposition of approximately $29,000 remaining in the financial aid bank account from the former Range Technical College. HCC personnel indicated that the account contained receipts from several other sources. Without determining the source of the remaining balance, HCC cannot be assured that the remaining funds belong to the college.

Recommendations

- *The college needs to ensure that an employee not responsible for the receipts or disbursements of the bank accounts performs the monthly bank reconciliations.*

- *The college needs to ensure that the local bank accounts are reconciled to MnSCU accounting on a monthly basis.*

- *The college needs to determine the proper disposition of the remaining balance in the Range Technical College financial aid account.*

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Chapter 3. Student Financial Aid

Chapter Conclusions

Hibbing Community College had several internal control weaknesses in administering federal student financial aid. The college did not:

- ***perform certain key reconciliations,***
- ***adequately separate awarding and disbursing functions,***
- ***record financial aid activity on its accounting system timely,***
- ***ensure that eligible students received correct financial aid.***

The college generally designed and implemented controls to provide reasonable assurance that it managed state student financial aid programs in compliance with applicable requirements. However, the college did not perform key reconciliations and did not adequately separate the awarding and disbursing functions for state financial aid.

Hibbing Community College administered both federal and state student financial aid programs. The college used three software programs to package, award, and disburse student financial aid. These software packages were the accounts receivable module of the Collegiate Information System (CIS), the student financial aid system (SAFE), and the Loan Management System (LMS) for Perkins Loans.

Federal programs reviewed during the audit period included the following.

- *Federal Pell Grant Program (CFDA #84.063)*--The Pell Grant is generally the first source of financial aid assistance to students. Federal funds are available for all eligible students. The maximum Pell Grant was $2,700 for a student in the 1997-98 award year.

- *Federal Family Educational Loan (FFEL) Program, including subsidized and unsubsidized Stafford Loans for students, and Plus Loans for parents (CFDA #84.032)*--Private lenders provide the loan principal to students for the FFEL Program. The federal government guarantees the loan in the event of default or cancellation. 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, the student pays all interest that accrues on the loan.

- *Federal Supplemental Educational Opportunity Grant (FSEOG) Program (CFDA #84.007)*--FSEOG grants are awarded to exceptionally needy undergraduate students. The college determines a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education subsidizes 75 percent of the grants and the college funds the remainder.

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- *Federal Work Study (FWS) Program (CFDA #84.033)*--Federal Work Study provides part-time employment for students who continue to have financial need after receiving all other available grants. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remainder.

- *Federal Perkins Loan (FPL) Program (CFDA #84.038)*--The FPL Program provides new loans to students as MnSCU receives payments on previous Perkins Loans. The MnSCU system office manages the collection, repayment, and waiver process for the college's Perkins Loans.

State programs covered during our audit included the following.

- *Minnesota State Grant (MNSG) Program* --The Higher Education Services Office (HESO) establishes the eligibility criteria for this program and advances funds to the college. The college determines student eligibility and provides the awards to the students.

- *Minnesota Non AFDC Child Care Grant Program*--HESO also determines the eligibility criteria for this program. Grant funds are for Minnesota residents with dependents under the age of 12 who meet income eligibility criteria.

- *Minnesota Student Educational Loan Program (SELF) Program* --SELF provides long-term, low interest educational loans to students. The demand for this type of loan is low because it is always in repayment status and has no grace period.

- *Minnesota State Work Study (SWS) Program*--State Work Study provides part-time employment for students who continue to have financial need after receiving other available grants. The college determines student eligibility and prepares payroll reports. MnSCU system office produces the payroll checks for the students.

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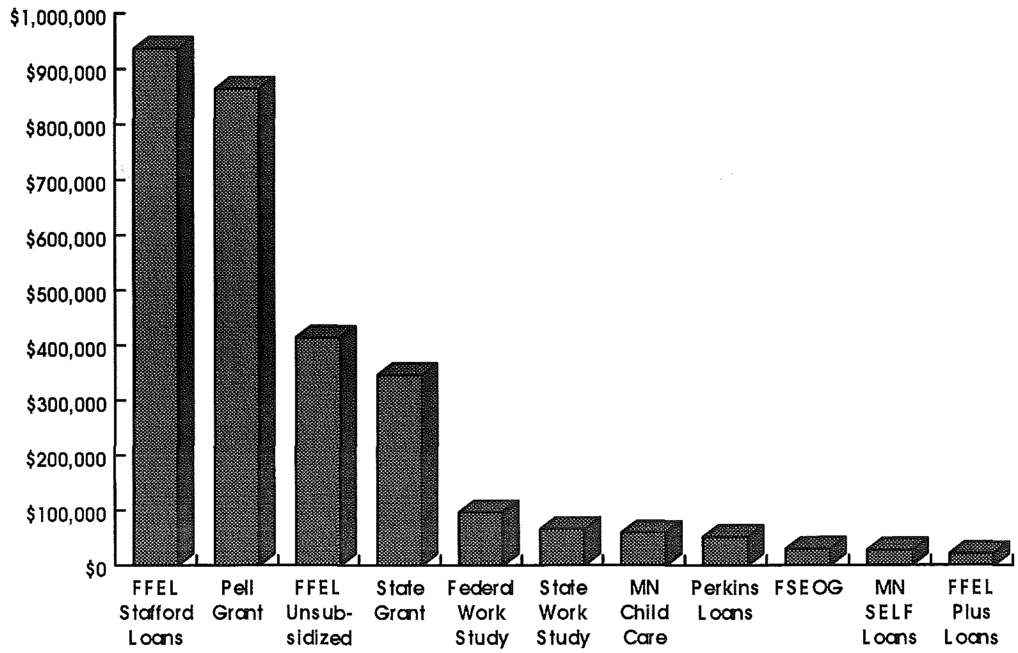
Figure 3-1 shows federal and state financial aid expenditures by program for fiscal year 1998 as of March 31, 1998.

Figure 3-1
Hibbing Community College
Student Financial Aid by Programs
Fiscal Year 1998 as of March 31, 1998



Source: Auditor prepared based on information provided by Hibbing Community College.

Audit Objectives and Methodology

Our review of Hibbing Community College's student financial aid programs focused on the following questions:

- Did Hibbing Community 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 Hibbing Community College comply with applicable legal requirements over the management of cash and timely and accurate reporting of financial aid activity?

To address these objectives, we evaluated and tested controls over compliance for determining student eligibility, packaging and awarding, and disbursing state and federal financial aid funds. We also evaluated and tested controls over compliance for managing federal cash and reporting federal expenditures.

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Conclusions

Hibbing Community College had several internal control weaknesses in administering federal student financial aid. The college did not:

- perform certain key reconciliations,
- adequately separate awarding and disbursing functions,
- record financial aid activity on its accounting system timely,
- ensure that eligible students received correct financial aid.

The college generally designed and implemented controls to provide reasonable assurance that it managed state student financial aid programs in compliance with applicable requirements. However, as noted above, the college did not perform key reconciliations and did not adequately separate the awarding and disbursing functions for state financial aid. Our findings and recommendations related to federal and state student financial aid are discussed in this chapter.

2. HCC did not perform key reconciliations related to student financial aid.

Hibbing Community College did not ensure the accuracy of its records by performing key reconciliations related to student financial aid. HCC did not reconcile the financial aid disbursements on CIS to the amounts recorded on SAFE. The last reconciliation for fiscal year 1997 was done in September of 1997 and included only Pell, MNSG, FSEOG, and the Perkins programs. FFEL and several other program disbursements, including Campus Work Study and Child Care Grants, were not reconciled. HCC also did not reconcile the Campus Work Study financial aid awards on SAFE to the financial aid disbursements on the state's payroll system (SEMA4).

Periodic reconciliations between the various accounting systems ensure the accuracy of the transactions posted and reduces the risk of errors and fraud going undetected.

Recommendation

- *The college should ensure the accuracy of its accounting records by reconciling the student financial aid activity recorded on the various accounting systems.*

3. HCC did not adequately separate duties over financial aid transactions.

HCC did not adequately control financial aid by separating certain duties. First, in the cash management area, the same individual requested federal funds, recorded the federal receipts on the accounting systems, and reconciled the financial aid bank account. In addition, this individual could write checks out of the financial aid accounts. Ideally, these responsibilities should not be concentrated with one individual. Inadequate separation of duties increases the risk of errors and irregularities going undetected.

Also, for the FFEL and SELF programs, financial aid office staff had access to FFEL and SELF financial aid checks. Federal regulations require separation of federal aid awarding from the disbursing or delivery functions. Although the business office received the financial aid checks, financial aid staff were given access to the checks eliminating the intended control.

Finally, for the Campus Work Study Program, which includes federal, state, and institutional work study, the college did not adequately separate the payroll input function and disbursing function. One business office employee input work study payroll hours, funding changes, and employee additions into CIS and the interface to SEMA4. This same employee had possession of the payroll checks prior to distribution.

Recommendations

- *The college should improve internal control by separating the duties of requesting and recording federal funds from the duty of reconciling the bank statements.*

- *The college should completely separate the awarding and disbursing functions related to student financial aid including the FFEL and College Work Study programs.*

4. HCC did not accurately and timely account for all student financial aid activity on the Collegiate Information System.

HCC did not accurately record certain FFEL disbursements on the Collegiate Information System (CIS). The college did not properly code FFEL checks issued to students on CIS in cases where the student has used other funds to pay tuition and the college gives the financial aid checks directly to the students. Because HCC did not accurately record these checks on CIS, the college did not accurately reflect the total activity of the FFEL program.

Furthermore, HCC did not record other student financial aid activity on CIS timely. HCC did not enter the 1997-98 winter quarter FFEL disbursements in the accounting system for two to three weeks after the disbursements were made. In addition, the underlying source documentation for electronic input of these disbursements was not adequately safeguarded from loss or theft.

MnSCU Policy 7.1 Financial Management/Accounting Reporting, Part 2, states that

> ...the objective of the accounting activity is to ensure that the financial records...provide a basis for control and management of all funds. Additionally, federal student financial aid activity needs to be accounted for in such a manner as to prevent overawards and overdisbursements based on either need or cost of attendance. Therefore, it is a requirement that the school keep adequate records to monitor awards and disbursements on a student-by-student basis.

Recommendations

- *The college should properly record all financial aid disbursements on the Collegiate Information System.*

- *The college should record student financial aid activity timely and eliminate the need to safeguard documentation for future input.*

5. HCC awarded a child care grant to an ineligible student.

The college awarded and disbursed a $3,798 state Non-AFDC Child Care Grant to an ineligible student. The college received funding for this program from the Minnesota Higher Education Services Office (HESO). The student was not eligible for this program because the student did not meet the program criteria. According to program guidelines, a resident is someone who has resided in Minnesota for "purposes other than post-secondary education for at least 12 consecutive months without being enrolled at a post-secondary educational institution for more than 5 credits per term." The student was enrolled at the college beginning the fall quarter 1997 yet had only been a resident of the state since April 15, 1997.

Recommendation

- *The college should work with the Minnesota Higher Education Services Office (HESO) to resolve the Non-AFDC Child Care Grant overpayment.*

6. HCC did not meet certain federal student financial aid internal control objectives.

The college did not consistently package and award federal financial aid to comply with certain federal requirements. In addition, the college did not always effectively document decisions affecting awards. Finally, the college did not always diligently monitor the financial aid packages that it prepared.

The college mainly used the SAFE program software to package awards from Pell, FSEOG, and Minnesota State Grants. Other loans and work study were packaged off-line and then recorded on the SAFE system. We found that internal control processes were not always followed or were over ridden. Although the SAFE system provides on-line review of financial aid packages as well as printed reports, the college did not make adequate use of these tools.

The college awarded federal student financial aid to 904 students in fiscal year 1998. Based on our assessment of the risk of overaward or other noncompliance, we selected 45 students and reviewed the supporting documentation for aid received. The SAFE system and supporting student files did not contain complete documentation for awards to 15 students. The college was able to explain or correct seven of the potential problems noted. However, we were not able to satisfactorily resolve the following issues with the college:

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- One student was "temporarily" loaned $700 in Perkins funds for automobile expenses. The temporary loan was repaid when other financial aid was received. The $700 due the Perkins Loan account has been paid. However, the college did not have authority to use Perkins funds for temporary student loans.

- Three students were overawarded and overdisbursed financial aid in advance of additional need determination. These students were overpaid a total of $1,620. In each case, HCC documented or is attempting to document circumstances to justify the awards after the awards and overpayments occurred. We think that packaging, awarding, and disbursing financial aid before a student's actual need is documented increases the risk of overpayment. The college should work with the U. S. Department of Education to resolve these overpayments.

- Three students were overawarded and overdisbursed federal financial aid because the college failed to take into account Minnesota State Grant Program adjustments made after the students' original awards. As a result, three students each received an extra $118, or a total of $354, from the FFEL Program. The college could have prevented this by implementing adequate internal controls so that batch changes on the SAFE financial aid system were processed properly. The college should work with the U.S. Department of Education to resolve the FFEL Program overpayments for these students.

- One student did not receive FSEOG Program funds timely. The SAFE and CIS systems placed a hold on the student's grant disbursement because total financial aid packaged exceeded aid eligibility. We noted during fieldwork that this student was eligible for $493 of the original $600 grant. The college should monitor students whose aid is on hold and disburse any eligible aid to those students.

Recommendations

- *The college should consistently package and award financial aid to comply with federal requirements.*

- *The college should establish a monitoring system to ensure that financial aid is properly calculated and supported.*

- *The college should work with the U. S. Department of Education to resolve the questionable payments.*

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7. HCC did not ensure federal program funds were requested timely and based on immediate needs.

HCC did not comply with federal cash management regulations when requesting federal program funds. HCC used the North East Service Unit (NESU) Center in Virginia when requesting funds from the U.S. Department of Education. It took a minimum of three business days after funds were received electronically in Virginia for funds to be mailed to Hibbing and deposited into the local federal grant bank account. It took several more days to disburse the aid to the students. Federal regulation 34 CFR 668.116(a)(1) considers excess cash to be funds "that an institution does not disburse to students or parents by the end of the third business day following the date the institution received those funds from the Secretary." HCC cannot comply with federal regulations using its current method of requesting funds.

Recommendation

- *The college should implement policies and procedures such as electronic transfers directly to a local bank to comply with federal cash management regulations.*

Chapter 4. Tuition Revenue

Chapter Conclusions

Generally, Hibbing Community College designed and implemented internal controls to provide reasonable assurance that tuition and fee revenue was accurately recorded in the accounting records, in compliance with legal provisions and management's authorization. The college could improve some control procedures over tuition revenues by approving administrative adjustments, depositing receipts more timely, performing timely reconciliations of credits to tuition receipts, and implementing other controls, including controls over customized training.

Hibbing Community College collected approximately $6 million in tuition and fees during fiscal years 1996 and 1997. Resident tuition was $40 plus fees and $41.60 plus fees for fiscal year 1995-96 and 1996-97 school years, respectively. Tuition, fees, and non-credit tuition revenue for fiscal years 1996 and 1997 are shown in Table 4-1.

Table 4-1
Tuition Revenue
Fiscal Years 1996 and 1997

Revenue Source	Fiscal Year 1996	Fiscal Year 1997
Tuition*	$2,661,336	$2,191,360
Fees	427,277	347,074
Non-credit tuition	268,596	310,699
Total	$3,357,209	$2,849,133

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

Note: HCC stated that the tuition decrease from 1996 to 1997 was caused by a significant decline in student enrollment after the merger.

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

The Hibbing campuses of Range Technical College and Arrowhead Region Community College combined beginning in fiscal year 1997. During fiscal year 1997, the college continued to maintain two business offices and use two registration systems. Both the Collegiate Information System (CIS) and the Minnesota Multi-Campus Student Information System (MSIS) maintain registration and accounts receivable information on each student. CIS and MSIS interfaced with the MnSCU accounting system, which has bookkeeping and general ledger capabilities. In fiscal year 1998, the college began using only the CIS to maintain student registration and accounts receivable information.

Audit Objective and Methodology

Our review of Hibbing Community College's tuition and fee 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, 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 reviewed the controls over tuition and fee billing, collection, and deposit. We also tested samples of transactions to determine if the college accurately recorded transactions on the MnSCU accounting system. In addition, we reconciled the credits awarded on the CIS to the tuition revenue recorded on the MnSCU accounting system.

Conclusion

The college generally designed and implemented internal controls to provide reasonable assurance that tuition revenues were safeguarded, accurately reported in the accounting records, and in compliance with legal provisions and management's authorization. We noted some weaknesses in the internal control structure over tuition as discussed in the findings presented below.

8. HCC needs to strengthen controls over tuition receipts.

The college needs to make more timely deposits of tuition receipts. Both the technical and community college campuses did not deposit receipts promptly, nor did they enter the receipts in MnSCU accounting timely. Deposits were delayed from one to four days, and entry on MnSCU accounting was three to four days late. In addition, the college transported tuition receipts back and forth to the bank for safekeeping during the reconciliation process before making the final bank deposits. Minn. Stat. Section. 16A.275 states that an agency shall deposit receipts totaling $250 or more in the state treasury daily. Undeposited receipts and additional transporting of receipts increases the risk of funds misplaced or misappropriated. In addition, untimely deposits result in a loss of interest income to the college.

HCC also did not verify the propriety of administrative adjustments. One employee in the business office has access to cash and the responsibility to perform refunds and administrative adjustments. Administrative adjustments allow the employee to make changes to student account receivable records. Although the college requires written authorization for an adjustment, the employee could perform the adjustment on CIS without authorization. The college received a report listing all administrative adjustments; however, it did not independently review the report. The lack of an independent review increased the risk of errors or irregularities occurring and going undetected. We found one isolated error of $127 in the transactions we tested. The employee entered the same adjustment twice for one student.

Finally, the college did not verify that it had collected the appropriate amount of tuition revenue based on the number of credits students earned on the registration system. Although the college has now reconciled CIS for fiscal years 1996 and 1997, the reconciliations were not done until the middle of fiscal year 1998. By reconciling tuition revenues recorded on the accounting system to the billable credits on the registration system, the college would gain assurance that it collected the proper amount of tuition, at appropriate tuition rates. The reconciliation should consider factors such as credit waivers, non-resident credits, reciprocity credits, and tuition refunds.

Recommendations

- *The college should deposit receipts over $250 timely.*
- *The college should assign an independent employee to review administrative adjustments.*
- *The college should reconcile tuition revenue recorded on MnSCU accounting to credits awarded on the Collegiate Information System.*

9. HCC did not adequately control non-credit tuition receipts.

HCC did not adequately segregate duties related to non-credit tuition receipts. The college collected approximately $579,000 in non-credit tuition during fiscal years 1996 and 1997. One individual was responsible for on-site tuition collection and entering the information on CIS. Additionally, the college did not reconcile receipts to course rosters. To effectively control tuition receipts, the college needs to separate the registration and receipt collection functions. Also, the college should perform an independent reconciliation between registration information and receipt collection. The lack of an independent reconciliation increases the chance of errors and irregularities occurring and going undetected.

Recommendations

- *The college should separate the receipt collection and recording processes.*
- *The college should ensure that an independent reconciliation of receipts to course rosters is performed.*

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Chapter 5. Payroll

Chapter Conclusions

Hibbing Community College designed and implemented internal 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.

Payroll represents the largest expenditure for Hibbing Community College. The college's payroll expenditures for fiscal year 1997 totaled approximately $8.2 million. College employees belong to various compensation plans, including the American Federation of State, County and Municipal Employees (AFSCME), the United Technical College Educators (UTCE), 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).

In October 1996, the college began processing payroll information in the state's new SEMA4 payroll system. The college monitored employee appointment information, personnel files, and pay rates in the State Colleges and Universities Personnel and Payroll System (SCUPPS). HCC contracted with the Northeast Service Unit to process their payroll. Hibbing's human resources staff recorded the college's staff appointments and assignments in SCUPPS. Northeast's payroll staff entered the timesheets into SEMA4.

Audit Objectives and Methodology

Our review of HCC's payroll focused on the following questions:

- Did the college design 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 meet these objectives, we interviewed HCC and Northeast Service Unit employees to gain an understanding of the internal control structure and accounting process for payroll and personnel transactions. We also analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Hibbing Community College

Conclusions

Hibbing 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.

Chapter 6. Administrative Expenditures

Chapter Conclusions

Hibbing Community College designed and implemented internal controls to provide reasonable assurance that expenditures for goods and services were properly authorized and accurately recorded in the accounting records. In addition, for the items tested, the college complied with material finance-related legal provisions. However, the college needs to periodically complete a physical inventory to validate the accuracy of fixed asset records.

HCC expended approximately $2.6 million during fiscal year 1997 for administrative expenditures. The largest two categories were supplies and equipment accounting for approximately $620,000 and $480,000, respectively. Other administrative expenditures include items such as rent, utilities, purchased services, and travel. Based on requisitions from the college, the Northeast Service Unit (NESU) prepared purchase orders and entered the information into MnSCU accounting. Once the college verified receipt of the goods and compared the vendors invoice to the purchase order, it sent the invoice to NESU for payment.

Audit Objectives and Methodology

Our review of administrative expenditures focused on the following questions:

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

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

Conclusions

We concluded that, except for not performing a physical inventory as discussed in the following finding, the college designed and implemented internal controls to provide reasonable assurance that administrative expenditures were accurately reported in the accounting records. We also concluded that the college was in compliance with material finance-related legal provisions with respect to the items tested.

10. HCC did not independently verify its fixed asset records.

Hibbing Community College has not conducted a complete physical inventory to validate the accuracy of its fixed asset records in two years. The Northeast Service Unit produced a fixed asset master list identifying the college's assets. The master list included the campus location the asset was assigned to, a description of the asset, the cost, and the asset number. MnSCU procedures required 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, the theft or misuse of those items could go undetected.

Recommendation

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

Chapter 7. Bookstore

Chapter Conclusions

Hibbing Community College designed and implemented internal controls to provide reasonable assurance that revenue collections and disbursement transactions were properly recorded in the accounting records. With respect to the items tested, the bookstore operated in compliance with material finance-related legal provisions. However, the college has not prepared an income statement to properly monitor its financial activities. Finally, the college has not charged certain overhead costs to the bookstore operations.

Hibbing Community College currently operates two bookstores. The north campus bookstore has one full-time employee and also employs student workers. The central campus bookstore is only open on Tuesdays and Thursdays. HCC is currently considering combining the bookstore operations. The bookstores had revenues and expenses of approximately $517,000 and $508,000, respectively, in fiscal year 1997 as recorded in the MnSCU accounting system. The bookstores do not maintain a perpetual inventory system. The bookstore does, however, complete an inventory count at the end of each fiscal year. The college has used certain of its profits to purchase equipment for the benefit of the residents.

Audit Objective and Methodology

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

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

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

Conclusion

HCC designed and implemented internal controls to provide reasonable assurance that bookstore revenue collections and disbursement transactions were accurately recorded in the accounting records in compliance with applicable legal provisions. However, as discussed in the following finding, the college has not prepared an income statement to monitor its financial activities. Finally, the college has not charged certain overhead costs to bookstore operations.

11. HCC has not prepared an income statement and has not charged certain overhead costs to the bookstore operations.

Hibbing Community College did not prepare an income statement for its bookstore operations. In addition, the college did not charge certain overhead costs related to its bookstores. The college has entered bookstore activity into the MnSCU accounting system; however, this activity does not take into account items such as heat and electricity, rent for the bookstore space, or indirect costs incurred by the business office. The system office has not established policies regarding the allocation of costs to enterprise activities.

The college did not prepare an income statement from MnSCU accounting to monitor its financial operations. The college cannot effectively and adequately manage the financial activity of the bookstore without preparing accurate financial statements. An accurate income statement would allow the college to measure whether or not the bookstores are properly matching revenues and expenses. In addition, an income statement analysis can aid in determining the correct markup that should be applied to cost of goods sold.

Recommendations

- *The college should prepare complete financial statements for the bookstores to aid in monitoring financial activity.*

- *The college should work with the central office to determine the proper overhead costs to allocate to bookstore operations.*

Status of Prior Audit Issues
As of May 8, 1998

Most Recent Audit

Legislative Audit Report 98-16, issued in March 1998, covered the material 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. The report contained no findings for programs administered by Hibbing Community College. In Status of Prior Audit Issues, the report noted substantial improvement, but not full resolution, on the issue of Perkins loan receivable balances (Finding 11 in Legislative Audit Report 97-29 for fiscal year 1996). Due to this improvement, the issue was not repeated in the fiscal year 1997 MnSCU report or in this report. During our testing, we found that the college continues to work with MnSCU to resolve any remaining differences. In addition, Legislative Audit Report 98-16 notes that all campuses including the "new" Hibbing Community College provided reasonable assurance that fiscal year 1997 Perkins loan management activities were accurately reported and administered in compliance with applicable laws and regulations.

Other Audit History

Legislative Audit Report 97-29, issued in June 1997, covered the material federal financial aid programs administered by the state of Minnesota in fiscal year 1996. Included in this report was Finding 11. The finding noted that several community colleges, including the "old" pre-merger Hibbing Community College, had different Perkins loans receivable balances on MnSCU's Loan Management System (LMS) than were reported on the schools' individual federal FISAP reports. This amounted to a $2,302 (0.5%) overstatement for Hibbing's FISAP report as compared to the Loan Management System. For the reasons noted in Legislative Audit Report 98-16, the issue is not repeated in our current report.

Legislative Audit Report 96-24, issued in June 1996, covered the material federal financial aid programs administered by the state of Minnesota in fiscal year 1995. Included in this report was Finding 25 noting inadequate separation of duties over the processing of tuition receipts. Finding 25 was resolved.

Legislative Audit Report 95-24, issued in June 1995, covered the material federal financial aid programs administered by the state of Minnesota in fiscal year 1994 and contained no findings for Hibbing Community College.

Legislative Audit Report 94-29, issued in June 1994, covered the material federal financial aid programs administered by the state of Minnesota in fiscal year 1993 and contained no findings for Hibbing Community College.

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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Hibbing Community College
A TECHNICAL AND COMMUNITY COLLEGE

July 16, 1998

Mr. James Nobles
Legislative Auditor
100 Centennial Office Bldg.
658 Cedar Street
ST. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to respond to the audit report of Hibbing Community College for the period of July 1, 1995 through June 30, 1997. I appreciated the professional manner in which your staff conducted the audit and the assistance given to my staff to better perform their tasks.

As shown in Table I, the college is in good financial shape and has worked hard to establish a reserve that will assist us in meeting our debt redemption responsibility for our new building.

The audit assists us to continue to improve our financial practices and procedures in compliance with state laws and policies. We have made significant progress in resolving these findings.

Below are responses to each finding and time frame for completion.

Finding 1: HCC needs to improve controls over local bank accounts.

Effective immediately, the person responsible for receipts and disbursements no longer reconciles bank statements. The Vice President of Admin. Services is performing this function.

The college no longer will be using eight bank accounts. Effective July 1, 1998 there will be two bank accounts that will be reconciled monthly to MnSCU accounting.

The remaining $29,000 balance in the former Technical College financial aid account has been identified and transferred to the correct accounts. This bank account has been closed out.

Responsible party: Vice President of Admin. Services
Implementation Date: June 30, 1998

1515 East 25th Street . Hibbing, Minnesota 55746 . 218-262-7200 . TDD 218-262-6775 . 800-224-4HCC

Finding 2: ***HCC did not perform key reconciliations related to financial aid.***

The reconciliation of key financial aid accounts will be done each semester.

Responsible party: Accounting Technician; Financial Aid Director
Implementation Date: July 1, 1998

Finding 3: ***HCC did not adequately separate duties over financial transactions.***

Effective 6/30/98 the individual requesting and recording federal funds will not be reconciling the bank account where these funds are located. The individual inputting workstudy hours in the payroll system no longer disburses workstudy checks effective April 10, 1998.

Responsible Party: Vice President of Admin. Services
Implementation Date: Completed

Finding 4: ***HCC did not accurately and timely account for all student activity on the Collegiate Information System.***

The college recorded all activity on the CIS system. However, the coding used would not allow for the transfer of activity to the financial aid system. The college corrected this coding error during the audit visit and currently records all FFEL transactions on the CIS system before giving the check to the student.

Responsible party: Account Clerk Senior
Implementation Date: Completed

Finding 5: ***HCC awarded a child care grant to an ineligible student.***

This award was retracted and the funds were recovered. We have made changes in our child care award form and application to insure that staff reviews residency requirements.

Responsible party: Financial Aid Director
Implementation Date: Completed

Finding 6: ***HCC did not meet certain federal student aid internal control objectives.***

The Financial Aid Office is pleased that of the 904 students reviewed by the Legislative Auditors on the award roster, there were only 8 students that resulted in findings.

Finding 6: *continued...*

We feel the 8 students identified by the auditors are legitimate areas of concern, but are not indicative of widespread problems in our financial aid practices. We have taken immediate action to revise policy and procedures and have developed additional monitoring processes to insure compliance.

Responsible party: Financial Aid Director
Implementation Date: June 30, 1998

Finding 7: ***HCC did not ensure federal program funds were requested timely and based on inadequate needs.***

The same day a request is made to (NESU) Northern Service Unit to draw down federal funds, a check will be issued by NESU and mailed to HCC for safekeeping. The College will contact Dept. of Education each day to determine the date of wire transfer. Once the wire transfer is completed the College will remove check from safe and deposit the check into its bank account. We will be requesting approval from the Department of Finance to hold the check for future deposit.

Responsible party: Accounting Technician
Implementation Date: 7/17/98

Finding 8: ***HCC needs to strengthen controls over tuition receipts.***

The cashiering window is closed at the end of each business day. The college will secure these funds in its safe and deposit the funds in to the bank the following day. The funds will be deposited by 2 p.m. and an entry to MnSCU will be entered by 2 p.m. for all receipts over $250.00.

The Vice President of Admin. Services who does not enter adjustments into the CIS system began reviewing administrative adjustments effective June 1, 1998.

The business office staff periodically will reconcile tuition receipts on MnSCU to CIS credits. This reconciliation shall take place during the summer months of each fiscal year.

Responsible party: Vice President of Admin. Services
Implementation Date: Completed

Finding 9: ***HCC did not adequately control non-credit tuition receipts.***

Effective July 17, 1998 the individual collecting non-credit tuition during hours the business office is not open will not be allowed to register students.

The College business office will immediately begin to perform an independent reconciliation of tuition to course rosters.

Responsible party: Vice President of Admin. Services
Implementation Date: 7/17/98

Finding 10: ***HCC did not independently verify its fixed assets.***

The College is currently performing a physical inventory of all technology related items. Upon return of faculty, the physical inventory of the remaining fixed assets will be performed. Expected completion is September 30, 1998.

Responsible party: Vice President of Admin. Services
Implementation Date: 9/30/98

Finding 11: ***HCC has not prepared an income statement and has not charged certain overhead costs to the bookstore operation.***

MnSCU is working on a cost-of-goods-sold report in its financial statements. The College will perform its own analysis until this is completed. Indirect costs will be recorded on MnSCU upon direction from MnSCU office.

Responsible party: Vice President of Admin. Services
Implementation Date: Tied to MnSCU Software Completion Date

We want to thank you for this opportunity to share the improvements we have made since the conclusion of the audit and our plans to implement your recommendations. Your comments and suggestions are most appreciated.

Sincerely,

Anthony E. Kuznik
President