Anoka Ramsey Community College

Financial Audit
For the Two Fiscal Years Ended June 30, 1997

August 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-43

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Dr. Patrick Johns, President
Anoka Ramsey Community College

We have audited Anoka Ramsey 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 revenue, bookstore operations, payroll expenditures, and supplies and equipment expenditures. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998. The following Summary highlights our audit objectives and conclusions. We discuss the 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 Anoka Ramsey 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 complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of Anoka Ramsey Community College. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 7, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 1, 1998

Report Signed On: August 3, 1998

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SUMMARY

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Anoka Ramsey Community College

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For the Two Fiscal Years Ended June 30, 1997

Public Release Date: August 7, 1998 No. 98-43

Background

Anoka Ramsey Community College was created in 1965. It is a multi-campus institution with campuses in Coon Rapids and Cambridge. The college was under the jurisdiction of the State Board for Community Colleges until the Minnesota State Colleges and Universities (MnSCU) began operations on July 1, 1995. Dr. Patrick Johns has served as college president since April 1991. Dr. Dennis Adams has been the vice president at the Cambridge campus since August 1996.

The Coon Rapids and Cambridge campuses operate quite independently. Each campus has its own business office, financial aid office, and bookstore. However, the Coon Rapids campus provides some administrative services for the Cambridge campus in the areas of payroll, personnel, federal reporting, and federal cash requests.

Scope and Conclusions

We have audited Anoka Ramsey Community College for the period July 1, 1995, through June 30, 1997. Our audit scope included the following areas: general financial management, tuition and fee revenue, bookstore operations, payroll expenditures, and supplies and equipment expenditures. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1998.

Anoka Ramsey Community College operated within its available resources. However, the Coon Rapids and Cambridge campuses did not use MnSCU accounting as the primary accounting system for some local activities. In addition, the campuses updated some financial information on MnSCU accounting only once a month. The Cambridge campus did not promptly record tuition and fee revenues on the MnSCU accounting system. The Coon Rapids campus had unreconciled differences between its bank statements and MnSCU accounting totals, and it did not have a comprehensive set of accounting records for federal financial aid.

We also found that the college did not maintain adequate separations of duties in several of its financial areas. The college did not adequately limit computer system access to those functions needed to perform job duties. In addition, the Coon Rapids campus had inadequate separation of duties over tuition, continuing education, and its bookstore.

In its written response, Anoka Ramsey Community College agreed with the audit report. The response indicated that the college has already implemented changes to address many of the issues in the report.

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Susan Rumpca, CPA	Audit Director
Fubara Dapper, CPA	Auditor
Anna Lamin	Auditor
Richard Weinmeyer	Auditor

Exit Conference

We discussed our findings and recommendations with the following representatives of Anoka Ramsey Community College and the MnSCU system office at an exit conference held on July 27, 1998:

Anoka Ramsey Community College:	
Patrick Johns	President
Bonnie Anderson	Coon Rapids Campus Vice President for Administration
Marilyn Smith	Coon Rapids Campus Business Office Manager
Dennis Adams	Cambridge Campus Vice President
Margaret Kircher	Cambridge Campus Associate Dean
Dona Niklason	Cambridge Campus Accounting Technician
MnSCU System Office:	
Laura King	Vice Chancellor - Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
John Asmussen	MnSCU Internal Audit
Janet Knox	MnSCU Internal Audit

Chapter 1. Introduction

Anoka Ramsey Community College was created in 1965. It is a multi-campus institution with campuses in Coon Rapids and Cambridge. The college was under the jurisdiction of the State Board for Community Colleges until the Minnesota State Colleges and Universities (MnSCU) began operations on July 1, 1995. Dr. Patrick Johns has served as college president since April 1991. Dr. Dennis Adams has been the vice president at the Cambridge campus since August 1996. The college had 3,463 full-time equivalent students enrolled in credit-based classes during fiscal year 1997. Approximately 79 percent of these students were enrolled at the Coon Rapids campus, with the remaining 21 percent enrolled at the Cambridge campus.

The Coon Rapids and Cambridge campuses operate quite independently. Each campus has its own business office, financial aid office, and bookstore. However, the Coon Rapids campus provides some administrative services for the Cambridge campus in the areas of payroll, personnel, federal reporting, and federal cash requests.

Each campus is affiliated with a separate foundation, which is an autonomous, non-profit organization. Both foundations have a board of directors, articles of incorporation, and by-laws. By contract, each campus provides administrative support for the respective foundation. In return, the foundations offer scholarships and funds which benefit the educational mission of the campuses. The financial statements for the foundation affiliated with the Coon Rapids campus are audited annually by a CPA firm. The last audit report was for the fiscal year ended June 30, 1997. The financial statements for the foundation affiliated with the Cambridge campus are reviewed annually by a CPA firm. The last review was for the fiscal year ended June 30, 1996. As of May 12, 1998, a CPA firm was working on the review for the fiscal year ended June 30, 1997.

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 1997.

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

	General Fund	Enterprise Funds
Beginning Fund Balance	$ 1,506,298	$2,297,496
State Appropriation (1)	9,321,283	0
Revenues		
Tuition and fees	7,579,026	0
Sale of goods	32,692	1,816,764
Federal grants	0	0
Other	500,549	120,531
Subtotal Revenues	$ 8,112,267	$1,937,295
Total Resources	$18,939,848	$4,234,791
Expenditures		
Employee payroll	$14,037,999	$ 163,792
Supplies and Equipment	825,699	1,417,223
Federal grants	0	0
Other	2,229,946	118,401
Total Expenditures	$17,093,644	$1,699,416
Ending Fund Balance	$ 1,846,204	$2,535,375

Note: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include loan activity or long-term assets and liabilities. Examples of financial activity 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 $1.26 million. The Special Revenue Funds do not appear in this table because of incomplete data on the MnSCU accounting system. See related Finding 1.

(1) The General Fund appropriation amount includes $6,714,925 which was entered into MnSCU accounting in November 1997.

Source: Fiscal year 1997 financial activity from MnSCU General Ledger Accounting System Report through September 30, 1997, dated January 6, 1998. General Fund was adjusted as a result of MnSCU/MAPS reconciliations performed by the MnSCU system office as of August 15 and November 3, 1997.

Chapter 2. Financial Management

Chapter Conclusions

Anoka Ramsey Community College operated within its available resources. However, we found that both the Coon Rapids and Cambridge campuses did not use MnSCU accounting as the primary accounting system for some local activities. The Coon Rapids campus also had not entered certain information onto MnSCU accounting. In addition, the campuses updated some financial information on MnSCU accounting only once a month.

The Cambridge campus properly accounted for and controlled its local bank accounts. However, as of the end of our audit fieldwork, the Coon Rapids campus had unreconciled differences in two of its bank reconciliations.

We also noted that the college did not adequately limit access to computer systems to those functions needed to perform job duties.

Anoka Ramsey Community College received the majority of its funding for operations from General Fund appropriations. The MnSCU system office allocated appropriated funds to the college based on an allocation formula. The college president then distributed the allocation to the Coon Rapids and Cambridge campuses. Anoka Ramsey Community College, like other colleges and universities, retained the tuition and other receipts it collected 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 systems to manage its financial operations. MnSCU requires each college and university to record all its financial activities on MnSCU accounting.

Anoka Ramsey Community College uses the MnSCU accounting system to initiate transactions for funds in the state treasury. These MnSCU accounting transactions update MAPS, the state's accounting system, through a system interface. MAPS also generates warrants for state treasury disbursements. Each month, the MnSCU system office performs a reconciliation of financial activity for the college's state treasury accounts as recorded on MnSCU accounting to amounts recorded on MAPS.

Anoka Ramsey Community College also maintains funds in local accounts separate from the state treasury. During our audit period, the Coon Rapids campus maintained the following bank accounts to account for local activity: student financial aid checking, all college checking, imprest cash checking, bookstore checking, credit card checking, Federal Perkins Loan savings, Nursing Loan savings, State Grant savings, and bookstore savings. The Cambridge campus maintained the following bank accounts: student financial aid checking, imprest cash checking, MnSCU all-college checking, CIS all-college checking, bookstore checking, credit card clearing, bookstore savings, and college reserve. As of April 1, 1998, the Cambridge campus combined the imprest cash, student financial aid, and MnSCU all-college accounts into one bank account.

Audit Objectives and Methodology

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

- Did Anoka Ramsey Community College operate within its available resources?
- Did Anoka Ramsey Community College properly record its financial activities on the MnSCU and MAPS accounting systems?
- Did Anoka Ramsey Community College properly account for and control its local bank accounts?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for each of the program areas discussed in the following chapters. We also gained an understanding of management controls in place over the local bank accounts and the programs included in our audit scope. We reviewed transactions posted to the accounting records to determine if Anoka Ramsey Community College properly recorded revenue and expenditure transactions in MnSCU accounting for both state treasury and local activities. In addition, we reviewed the college's budgetary process with the campus administrators.

Conclusion

Anoka Ramsey Community College operated within its available resources. However, we found that the college did not properly record all of its local account activity on the MnSCU accounting system. In addition, as discussed in Chapter 3, the Cambridge campus did not record its tuition receipts promptly on MnSCU accounting.

The Cambridge campus properly accounted for and controlled its local bank accounts. However, the Coon Rapids campus had unreconciled differences in two of its bank reconciliations. We also noted that the college did not adequately limit access to computer systems to those functions needed to perform job duties.

1. Anoka Ramsey Community College did not properly record all of its local activity on the MnSCU accounting system.

Both the Coon Rapids and Cambridge campuses did not use MnSCU accounting as the primary accounting system for some local activities. In addition, the campuses updated some financial information on MnSCU accounting only once a month. Finally, the Coon Rapids campus did not record certain transactions on MnSCU accounting.

The campuses used other records separate from MnSCU accounting to account for financial activity in the local bank accounts. For example, both campuses maintained other accounting records for their bookstores and for financial aid. The campuses then entered either summary or detailed transactions into MnSCU accounting for these activities. Table 2-1 shows the primary accounting systems used for these activities and the relationship to MnSCU accounting.

Table 2-1
Selected Local Activities
Primary Accounting Systems Used

Activity	Primary accounting system	Relationship to MnSCU accounting
Coon Rapids bookstore	Manual records	Summary revenue transactions entered on MnSCU accounting monthly. Individual disbursement transactions entered on MnSCU. (3)
Cambridge bookstore	PeachTree general ledger package	Individual disbursement transactions and summary revenue transactions entered on MnSCU accounting.
Coon Rapids financial aid	Manual records, expenditures from CIS. (1)	Summary expenditure and revenue transactions entered on MnSCU accounting. (2)
Cambridge financial aid	Manual spreadsheets	Summary expenditure and revenue transactions entered on MnSCU accounting.

(1) See related Finding 7, in Chapter 7 concerning Coon Rapids campus financial aid accounting records.

(2) For both fiscal years 1996 and 1997, the Coon Rapids campus did not enter any financial aid transactions into MnSCU accounting until the end of the fiscal year. The campus entered summary financial aid transactions for fiscal years 1996 and 1997 in September 1996 and June 1997, respectively.

(3) The Coon Rapids campus entered bookstore transactions for July and August 1995 in April 1996 and for September 1995 through April 1996 in May 1996. Beginning in November 1996, the campus entered bookstore revenues monthly and individual bookstore disbursements as they occurred.

Source: Auditor prepared.

In a September 17, 1996, directive to all college and university presidents, the MnSCU chancellor stated:

> Therefore, you need to update the MnSCU accounting system regularly, and eliminate separate accounting systems for local funds. As of November 30, 1996 all vendor payments from local funds shall be made through the MnSCU check writing system. You may continue to interface or manually enter transactions from accounts receivable, financial aid, and cost allocation systems. However, entry into the MnSCU accounting system must occur daily.

Anoka Ramsey Community College was not in compliance with this directive. In addition, the Coon Rapids campus did not record certain transactions onto the MnSCU accounting system. The campus did not record any Minnesota Grant expenditures for fiscal year 1996 nor any federal college work study revenues for either fiscal year 1996 or 1997 onto MnSCU accounting. Finally, the MnSCU system office did not record Coon Rapids parking fees for fiscal year 1997 on MnSCU accounting. Without complete entry onto MnSCU accounting, it is difficult for the campus to reconcile its accounts and for management to have complete information available for decision-making.

Recommendations

- *Anoka Ramsey Community College should eliminate all stand alone accounting systems used to account for local activities, except as allowed by the chancellor's directive.*

- *Anoka Ramsey Community College should adopt procedures to ensure that it enters all transactions onto MnSCU accounting daily.*

2. The Coon Rapids campus did not successfully reconcile its MnSCU accounting records to the bank statement amounts.

As of May 1, 1998, the Coon Rapids campus had significant unreconciled amounts in two of its bank accounts. In addition, as noted in Finding 9, the campus had not attempted to reconcile its federal financial aid account to MnSCU accounting as of that date. Although the college reconciled its bank accounts to its local accounting systems, the March 31 all-college account bank reconciliation had a $981,314 unreconciled difference between MnSCU accounting and the bank statement. In addition, there was an unreconciled difference of $25,427 in the campus imprest cash account as of March 31. These unreconciled differences indicate problems with the campus's use of the MnSCU accounting system. Proper reconciliations help to ensure that the accounting records show all financial activity accurately and to detect errors and irregularities.

Recommendation

- *The Coon Rapids campus should work with the MnSCU system office to resolve the unreconciled differences between its MnSCU accounting records and its bank accounts.*

3. Anoka Ramsey Community College did not adequately limit computer system access to those functions needed to perform job duties.

Anoka Ramsey Community College did not adequately limit access to computer systems to those functions employees needed to perform their job duties. In the following cases, employees had computer clearances which appeared to be inconsistent with their job duties:

- Three Coon Rapids campus employees had not used their Collegiate Information System (CIS) access since 1993, yet their access was not deleted until April 1998. The campus uses CIS for student registrations, fee assessment, and accounts receivable.

- A human resources employee at the Coon Rapids campus could enter hours worked for classified employees, along with the personnel duties of adding employees on the personnel system and adjusting pay rates. The employee also had access to the cashiering function and other functions on CIS.

- The Coon Rapids campus used generic logonIDs on CIS for student workers in the financial aid, records, and counseling offices. Because of this, the campus could not identify individual transactions to specific users.

- A supervisory employee at the Coon Rapids campus, who was no longer involved with the direct oversight of payroll operations, had full payroll access.

- A Coon Rapids bookstore employee and a business office employee used another employee's access to MnSCU accounting. As a result of this weakness, we reviewed the transactions initiated by the two employees who used another employee's access. The transactions appeared to be consistent with their job functions, and we did not find inappropriate transactions.

- At the Cambridge campus, a business office employee had access to the registration function on CIS. According to campus employees, this employee was given access in order to serve as a backup. However, the employee had not been trained for this function, nor was the access deleted.

- A system office employee, who left in March 1997, had access to college personnel functions as of November 1997.

Good controls over system access require that all users have individual access which is tailored to their job duties. The college should ensure that employees only have computer access to the extent required to perform their job responsibilities.

Recommendation

- *Anoka Ramsey Community College should periodically review system access and limit the access given to employees to the minimum needed to perform their job functions.*

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Chapter 3. Tuition and Fee Revenue

Chapter Conclusions

Anoka Ramsey Community College accurately reported tuition and fees in the accounting records. However, we noted that the Coon Rapids campus did not adequately separate duties related to the tuition and continuing education receipt processes. In addition, we found that the Cambridge campus did not promptly record tuition and fee revenue on the MnSCU accounting system.

The Coon Rapids and Cambridge campuses of Anoka Ramsey Community College each collected, deposited, and recorded their own tuition and fee revenue for students enrolled in campus programs. The campuses used the Collegiate Information System (CIS) for registration, fee assessment, and accounts receivable functions. Each campus was also responsible for recording its tuition and fees on the MnSCU accounting system.

The college collected a combined total of approximately $14 million in tuition and fees in fiscal years 1996 and 1997. The resident tuition rates for fiscal years 1996 and 1997 were $42.25 and $44.65 per credit, respectively. The non-resident tuition rates were $84.50 and $87.05 per credit for fiscal years 1996 and 1997, respectively. The college also charged students miscellaneous fees.

Figure 3-1 shows the breakdown of tuition and fee revenue into its various components by campus for fiscal year 1997.

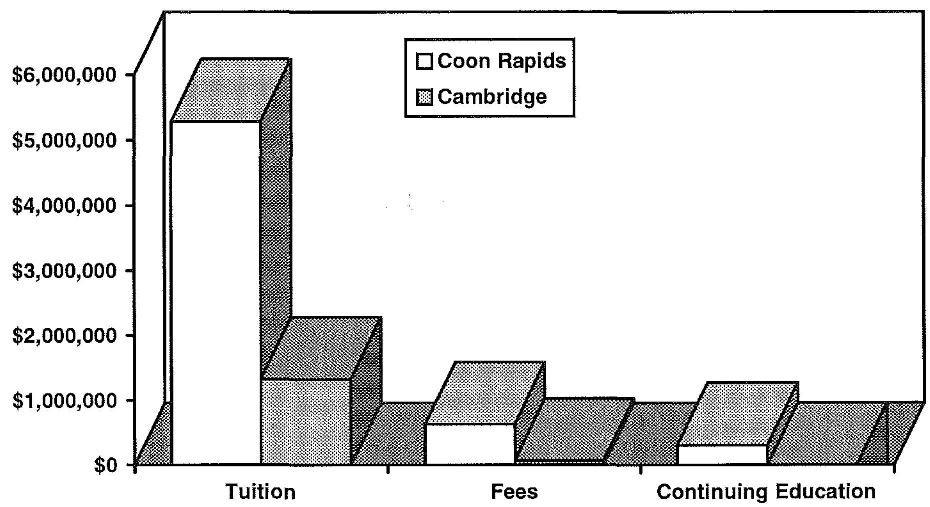
Audit Objective and Methodology

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

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

To answer this question, we interviewed employees to gain an understanding of the controls over billing, collecting, depositing, and recording tuition and fee revenues. Since each campus operates its tuition collection procedures independently, we reviewed the control separately on each campus. We reviewed student registration and billing records and MnSCU accounting records to determine if each campus charged students the appropriate tuition and fee rates, collected the amounts due, and properly recorded revenue transactions on the MnSCU accounting system. In addition, we compared tuition revenue recorded on the MnSCU accounting system to the credits awarded on CIS to determine the reasonableness of revenue collected.

Figure 3-1
Tuition and Fee Revenue
Fiscal Year 1997



Note: Tuition consists of resident, non-resident, post secondary enrollment, and senior citizen program. Fees consist of technology, course, student activity, health service, and other fees.

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

Conclusions

Anoka Ramsey Community College accurately reported tuition and fees in the accounting records. However, Finding 3, in Chapter 2, discusses computer security issues related to tuition.

We noted that the Coon Rapids campus did not adequately separate duties related to the tuition and continuing education receipt processes. Findings 4 and 5 below discuss these separation of duties issues. As discussed in Finding 6, we found that the Cambridge campus did not promptly record tuition and fee revenue on the MnSCU accounting system.

4. The Coon Rapids campus did not adequately separate duties related to tuition.

The Coon Rapids campus did not adequately separate duties related to the collection of tuition. The employee responsible for reconciling daily tuition and fee receipts to data recorded on CIS also collected tuition receipts and counted the cash. In addition, this employee prepared the daily receipt report, prepared the bank deposit, entered tuition transactions on MnSCU accounting, and initiated transfers among the bank accounts. The employee's supervisor reconciled the daily receipt reports prepared by the employee to the bank statement at the end of the month. Although the supervisor had access to the detailed source documentation, we saw no evidence that the supervisor routinely reviewed and verified the employee's work.

Recommendation

- *The Coon Rapids campus should adequately separate the functions relating to tuition receipts.*

5. The Coon Rapids campus did not adequately separate duties relating to the continuing education receipts process.

The Coon Rapids campus allowed one employee to have responsibility for the entire continuing education receipts process. The Coon Rapids campus offers continuing education courses in addition to career programs. The continuing education office at the Coon Rapids campus used a separate computer program called ACEware to register continuing education students and record receipts. The office also used the system to generate class lists and print certificates of completion.

One employee in the continuing education office registered students on the ACEware system, collected receipts, and prepared the daily deposit report. The employee forwarded the receipts and ACEware documentation to the business office, which made the deposit and entered the receipts on both CIS and MnSCU accounting. At the end of the month, the same employee reconciled the business office CIS report to the ACEware records. Because no independent person was involved in verifying the ACEware information, there was an increased risk that errors or misappropriation of funds could occur and not be detected.

Recommendation

- *The Coon Rapids campus should separate the functions related to continuing education receipts.*

6. The Cambridge campus did not promptly record tuition and fee revenue on the MnSCU accounting system.

The Cambridge campus did not promptly record tuition and fee revenue on the MnSCU accounting system. The business office deposited its tuition revenue into a local bank account daily. However, it did not promptly record the corresponding revenue transaction on the MnSCU accounting system. We found instances where the campus did not enter the revenue transaction on MnSCU accounting for up to seven days after it deposited the revenue into its local bank account. Without this entry, the state's accounting system (MAPS) is unable to record the revenue transaction, and the State Treasurer's Office is unable to sweep the funds into the state account.

Recommendation

- *The Cambridge campus should record tuition and fee revenue on the MnSCU accounting system as it is collected.*

Chapter 4. Bookstore Operations

Chapter Conclusions

Anoka Ramsey Community College accurately reported bookstore revenue and expenses in the accounting records. However, we found that the Coon Rapids campus did not have an adequate separation of duties over bookstore operations.

The Coon Rapids and Cambridge campuses of Anoka Ramsey Community College each operate a bookstore. The two bookstores operate independently, with separate employees and separate accounting records. Both bookstores sell books, school supplies, clothing, and other items. The college accounts for its bookstore operations in an enterprise fund. Anoka Ramsey Community College does not charge its bookstore expenses for indirect costs, such as rent and utilities.

During our audit period, the college followed the policies specifying the use of bookstore profits established by the former State Board for Community Colleges. Those policies required that the campuses used profits from campus bookstores for the benefit of the student population. The policies further stated that bookstore profits were to support such operations as student aid accounts, public information accounts, or remodeling and replacement of capital equipment. The Coon Rapids campus is currently using approximately $1,000,000 in profits from the Coon Rapids bookstore for the construction of new facilities at that campus. The campus also used bookstore profits for annual contributions of $10,000 to the Public Information Fund, $20,000 to the Library Fund, and $5,000 to the Student Emergency Loan Fund. The Cambridge campus used approximately $50,000 in profits from its bookstore to purchase computers for its computer lab. The campus also used $5,000 in profits to purchase stage lights in fiscal year 1996 and contributed $10,000 annually to the Public Information Fund at the campus.

Audit Objective and Methodology

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

- Did Anoka Ramsey Community College design 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 answer this question, we interviewed bookstore staff to gain an understanding of the controls in place over bookstore revenue and expenses. We also performed analytical reviews and tested samples of transactions to determine if each campus had adequate supporting documentation and accurately recorded the transactions on the MnSCU accounting system.

Anoka Ramsey Community College

Coon Rapids Campus Bookstore

At the Coon Rapids campus bookstore, most critical functions were performed by the bookstore manager or assistant manager. The bookstore operated independently of the campus business office. Bookstore employees were responsible for performing all functions related to the bookstore operation.

The bookstore used a cash register to record its sales transactions. Students had the option of paying by cash, check, credit card, or charging against financial aid. At the end of the day, a bookstore employee closed the register, counted the cash, and reconciled receipts to the cash register tape. The following day, a bookstore employee prepared a cash receipts log and a deposit slip. The bookstore manager recorded individual transactions on a manual accounting system. The manager summarized financial data each month and recorded these transactions on the MnSCU accounting system. The bookstore manager also reconciled the bank account each month.

The bookstore manager and assistant manager purchased books and other items for the bookstore. Either the manager or assistant manager authorized the purchase orders for textbook purchases. All bookstore employees received shipments. The employee who received the shipment verified the amount received to the packing slip and the purchase order. When the bookstore received the invoice, an employee compared the invoice, packing slip, and purchase order. The bookstore manager then issued a check to the vendor. During fiscal year 1996 and most of 1997, the bookstore used a manual check system which required two signatures. The designated check signers received supporting documentation to review before signing the checks. At the end of fiscal year 1997, the bookstore began issuing checks through the MnSCU accounting system check writer.

Table 4-1 shows a summary of revenue and expenses for the Coon Rapids campus bookstore for fiscal year 1997.

Table 4-1
Coon Rapids Campus
Bookstore Revenue and Expenses
Fiscal Year 1997

Revenue		Expenses	
Sale of Books, New and Used	$1,312,708	Books, New and Used	$1,024,264
Sale of Notebooks/Paper/Binders	59,988	Bookstore Payroll	114,481
Investment Income	51,308	Notebooks/Paper/Binders	46,059
Sale of Other Merchandise	40,531	Other Supplies for Resale	36,972
Other	1,621	Inventory Adjustment (1)	(10,233)
Total Revenue	$1,466,156	Depreciation	1,145
		Other	56,449
		Total Expenses	$1,269,137
		Revenues over Expenses	$ 197,019

(1) The inventory adjustment resulted from the fiscal year 1997 year-end physical inventory counts at the bookstore.

Source: Fiscal year 1997 activity as recorded on the MnSCU accounting system as of September 1997.

Cambridge Campus Bookstore

The bookstore at the Cambridge campus rang sales transactions through a cash register. Students had the option of paying by cash, check, credit card, or charging against financial aid. At the end of the day, a business office employee closed the register, counted the cash, reconciled receipts to the cash register tape, and prepared the bank deposit. The bookstore manager recorded individual transactions on an accounting software called PeachTree. The financial data was then summarized and recorded on the MnSCU accounting system.

The bookstore manager generated purchase orders for textbooks and other bookstore items. The manager authorized all bookstore purchases. Student workers received the shipments and compared the goods received to the packing slips and purchase orders. The bookstore manager matched the invoice, packing slip, and purchase order. The manager then issued a check through the MnSCU accounting system check writer. The associate dean reviewed the supporting documentation and checks and authorized the payment.

Table 4-2 shows a summary of revenue and expenses for the Cambridge campus bookstore for fiscal year 1997.

Table 4-2
Cambridge Campus
Bookstore Revenue and Expenses
Fiscal Year 1997

Revenue		Expenses	
Sale of Books, New and Used	$348,386	Books, New and Used	$261,604
Sale of Notebooks/Paper/Binders	22,892	Bookstore Payroll	48,451
Sale of Food	13,218	Other Supplies for Resale	2,565
Sale of Other Merchandise	4,730	Notebooks/Paper/Binders	27,906
Investment Income	4,550	Inventory Adjustment (1)	(25,025)
Total Revenue	$393,776	Depreciation	1,218
		Other	72,321
		Total Expenses	$389,040
		Revenues over Expenses	$ 4,736

(1) The inventory adjustment resulted from the fiscal year 1997 year-end physical inventory counts at the bookstore.

Source: Fiscal year 1997 activity from Cambridge campus internal accounting records as of June 30, 1997.

Conclusion

Anoka Ramsey Community College accurately reported bookstore revenue and expenses in the accounting records. However, we found that the Coon Rapids campus did not have an adequate separation of duties over bookstore operations. The following finding discusses the weakness in the controls over receipt and disbursement transactions at the Coon Rapids bookstore. Finding 3, in Chapter 2, also discusses a computer security issue related to the Coon Rapids bookstore.

7. The Coon Rapids campus did not adequately separate duties over its bookstore operations.

At the Coon Rapids bookstore, the bookstore manager and assistant manager processed purchase orders, received goods, paid invoices, entered expenditures into the MnSCU accounting system, and supervised inventory counts at year-end. These same employees deposited bookstore receipts and entered receipts on the MnSCU accounting system. The bookstore manager also reconciled the bank account. Concentrating the duties for one financial activity with these two employees increased the risk that errors or misappropriation of funds might occur and not be detected. At a minimum, different individuals should be responsible for the physical custody of assets and the accounting for the assets. For the purchasing function, responsibilities for authorizing purchases, receiving goods, and disbursing funds should be assigned to different individuals. Similarly, different employees should be involved in collecting receipts and accounting for receipt transactions.

Recommendation

- *The Coon Rapids campus should separate duties associated with critical functions of the bookstore.*

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Chapter 5. Employee Payroll Expenditures

Chapter Conclusions

Anoka Ramsey Community College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management authorizations.

Anoka Ramsey Community College's payroll expenditures for fiscal years 1996 and 1997 were approximately $13 million and $14 million, respectively. Payroll represents the college's largest expenditure category. College employees belong to various compensation plans, including the Minnesota Community College Faculty Association (MCCFA), the Middle Management Association (MMA), the Minnesota Association of Professional Employees (MAPE), the Excluded Administrators Plan, the Commissioner's Plan, and the American Federation of State, County, and Municipal Employees (AFSCME).

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 stored pay rate information and bargaining agreement history. PPS calculated the amounts paid employees and tracked leave accruals. In October 1996, the college began processing payroll information in the state's new SEMA4 payroll system while continuing to use SCUPPS. The functions of the two systems have remained the same, except that faculty leave accruals are now tracked primarily with manual records.

Anoka Ramsey Community College concentrates its institution-wide human resource and payroll functions primarily at the Coon Rapids campus. All new classified employees are entered onto SCUPPS at the Coon Rapids campus. For faculty members, however, the appropriate campus completes the staff appointment forms necessary to enter the employees onto SCUPPS. The campus sends the forms to the MnSCU system office for data entry. Each campus is responsible to verify that the system office properly entered the information relating to faculty appointments onto SCUPPS.

To process payroll, the Coon Rapids campus collects all classified employee timesheets and enters the payroll information into SEMA4. The Cambridge campus gathers timesheets from its classified employees and faxes them to Coon Rapids for input. Faculty payroll does not require biweekly entries onto SEMA4. However, the Coon Rapids campus verifies that biweekly payroll is properly processed for all employees, including faculty.

Anoka Ramsey Community College

Audit Objective and Methodology

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

- Did the college design and implement internal controls to provide reasonable assurance that it accurately recorded payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization?

To address this objective, we interviewed college staff to obtain a general understanding of the internal control structure over the payroll and personnel process, analyzed payroll data to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated payroll amounts to ensure proper payment.

Conclusions

Anoka Ramsey Community College designed and implemented internal controls to provide reasonable assurance that it accurately reported payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, as discussed in Chapter 2, Finding 3, we found several instances where the college did not adequately limit computer access relating to payroll.

Chapter 6. Supplies and Equipment Expenditures

Chapter Conclusions

Anoka Ramsey Community College accurately reported supplies and equipment expenditures in the accounting records. However, both the Cambridge and Coon Rapids campuses need to improve their equipment inventory procedures.

The Coon Rapids and Cambridge campuses of Anoka Ramsey Community College each purchase their own supplies and equipment. General Fund expenditures for supplies and equipment during fiscal years 1996 and 1997 for the Coon Rapids campus were $428,539 and $665,293, respectively. Supplies and equipment expenditures for fiscal years 1996 and 1997 for the Cambridge campus were $175,332 and $146,391, respectively.

The general purchasing process established by both campuses for supplies and equipment includes the use of requisitions and purchase orders. Requisitions ensure that management reviews the appropriateness of the items prior to purchase and that there are funds available. Each respective business office enters data from the requisition onto the MnSCU accounting system and produces a purchase order. When the business office receives the vendor's invoice, it compares the invoiced item and amount to the original purchase order. The campus also verifies that it has received the goods. The business office then sends the invoice to the MnSCU system office, which enters the invoice onto the MnSCU accounting system and produces and sends a check to the vendor. For purchases of fixed assets, the appropriate business office assigns and affixes a state fixed asset sticker to the item, and enters those items into the fixed asset inventory system.

Both campuses recorded assets on the Fixed Asset Network System (FANS) for fiscal years 1996 and 1997. In fiscal year 1996, the campuses followed state guidelines, which required them to record all items that cost $500 or more. In fiscal year 1997, the campuses used the MnSCU guideline and recorded assets with a cost of $2,000 or more. The campuses also recorded high risk items, such as computers, printers, TV monitors, and VCRs, regardless of the cost. The information technology department at the Coon Rapids campus maintained a database of the location of high risk items to further ensure tracking of assets. On an annual basis, the Coon Rapids campus conducted an inventory of the assets at its campus. The Cambridge campus, however, did not conduct a regular inventory or track the location of assets after the initial recording on the inventory system.

Audit Objective and Methodology

The primary objective of our review of supplies and equipment expenditures was to answer the following question:

Anoka Ramsey Community College

- Did Anoka Ramsey Community College design internal controls to provide reasonable assurance that supplies and equipment expenditures were accurately reported in the accounting records and adequately safeguarded in compliance with applicable legal provisions and management's authorization?

To meet this objective, we interviewed staff to gain an understanding of the purchasing and payment process on each campus. We also analyzed supplies and equipment disbursement data. We reviewed source documents for selected samples to determine proper authorization and payment and to ensure that the purchase complied with MnSCU purchasing policies. Finally, we verified the existence of some fixed asset purchases.

Conclusion

Anoka Ramsey Community College accurately reported supplies and equipment expenditures in the accounting records. However, we found that both the Cambridge campus and the Coon Rapids campus needed to improve their equipment inventory procedures.

8. Anoka Ramsey Community College did not adequately track its equipment inventory.

The Cambridge campus of Anoka Ramsey Community College did not have an adequate system for controlling its equipment. The Coon Rapids campus did not update its inventory system timely and did not ensure that its various inventory tracking systems contained the same information.

The Cambridge campus did not have an adequate system for controlling its equipment inventory. Cambridge staff had not performed a fixed asset inventory since 1993. In addition, since Cambridge had moved to its new facility in August 1996, it had not recorded the new location of its assets. The campus recorded the initial location of new equipment purchases. However, the campus had no method in place to update its system when equipment was moved or reassigned.

The Coon Rapids campus did not update its inventory system for location changes and ensure that its various inventory tracking systems agreed. We found that a tractor traded for a new tractor in March 1997 was not deleted from the asset system as of March 1998. Likewise, the new tractor had not been recorded on the asset system. In addition, there were differences between the campus's equipment inventory system and information technology department's database of sensitive items. For example, the asset system showed a desktop computer with a cost of $4,360, but this item was not recorded on the database maintained by the information technology department.

Recommendations

- *The Cambridge campus should implement an inventory control system which includes periodic physical inventory counts and accurate and timely inventory records.*
- *The Coon Rapids campus should ensure that its inventory system reflects current physical locations and that its various inventory tracking systems contain the same information.*

Chapter 7. Federal Student Financial Aid

Chapter Conclusions

Anoka Ramsey Community College designed and implemented internal controls to provide reasonable assurance that it managed its federal student financial aid programs in compliance with applicable program requirements. It also complied with applicable requirements in its management of federal cash and reporting of federal financial aid activity. However, we found that the Coon Rapids campus did not have comprehensive accounting records sufficient to allow them to track individual financial aid programs on a daily basis.

Anoka Ramsey Community College participated in the following federal student financial aid programs administered by the U.S. Department of Education:

- Federal Pell Grant Program (CFDA #84.063)
- Federal Family Education Loan (FFEL) Programs (includes subsidized and unsubsidized Stafford loans, PLUS loans) (CFDA #84.032)
- Federal Work-Study (FWS) Program (CFDA #84.033)
- Federal Supplemental Educational Opportunity Grant (SEOG) Program (CFDA #84.007)
- Federal Perkins Loan Program (CFDA #84.038).

Students completed an application for federal financial aid and submitted it to a federally-approved central processing unit. Each campus received processed application data from the central processor for those students who requested that the campus receive their data. Each campus used this data, along with a software package called SAFE, to package financial aid.

The Federal Pell Grant is the first source of assistance to students. Since the federal government did not limit Federal Pell Grant awards to the college, all eligible students received Federal Pell Grant awards. The maximum Federal Pell Grant award for a full-time student in the 1997-98 award year was $2,700.

Under the Federal Family Education Loan (FFEL) Program, private lenders provided the loan principal to eligible students while the federal government guaranteed the loan. For Federal Subsidized Stafford Loans, the federal government paid interest to the lender while the student attended school and during certain deferment periods. For Unsubsidized Federal Stafford Loans and Federal PLUS Loans, interest accrued from the date of origination and the borrower assumed responsibility for the interest.

Under the Federal Work-Study (FWS) Program, students with financial need are able to earn money to help pay educational expenses. Students earn at least the federal minimum wage, depending upon the type of work and the skills required.

Anoka Ramsey Community College

The Federal Supplemental Educational Opportunity Grant (SEOG) is for students with exceptional financial need. Each campus defined exceptional financial need. Since this is a grant program, students do not repay the grant.

Federal Perkins Loans are low-interest, long-term loans intended for students with exceptional need. Only the Coon Rapids campus participates in the Federal Perkins Loan Program. Interest accrues six to nine months after students stop attending school. Federal regulations establish deferment, postponement, and cancellation criteria. MnSCU maintains a centralized Loan Management System (LMS) for the community colleges. System office duties include corresponding with students going into repayment status, receiving all loan repayments, and pursuing delinquent loans. The Coon Rapids campus is responsible for awarding and disbursing the loans. It is also responsible for entering loan awards and disbursements into LMS.

Each campus of Anoka Ramsey Community College awards and disburses financial aid to its own students. Each campus also records its own financial aid activity on MnSCU accounting. The Coon Rapids campus, however, requests federal funds and submits some of the required federal reports for both campuses. The Coon Rapids campus draws funds based on amounts requested by the Cambridge campus. The Cambridge campus submits financial data to the Coon Rapids campus, which combines the data for both campuses when completing the Fiscal Operations Report and Application to Participate (FISAP) and Federal Cash Transactions Reports for the college as a whole.

Audit Objectives and Methodology

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

- Did Anoka-Ramsey Community College design and implement internal controls to provide reasonable assurance that it is managing federal student financial aid programs in compliance with applicable program requirements?

- Did Anoka-Ramsey Community College comply with applicable requirements in its management of cash and reporting of financial aid activity?

To address these questions, we evaluated and tested controls over compliance at each campus for determining student eligibility, awarding, packaging, and disbursing federal financial aid. We also tested compliance with federal cash management and reporting requirements. Our review of federal student financial aid was limited to a review of internal controls in place for the 1997-98 school year.

Conclusions

Anoka Ramsey Community College designed and implemented internal controls to provide reasonable assurance that it managed its federal student financial aid programs in compliance with applicable program requirements. It also complied with applicable requirements in its management of federal cash and reporting of federal financial aid activity. However, we found that the Coon Rapids campus did not have comprehensive accounting records sufficient to allow them to track individual financial aid programs on a daily basis.

9. The Coon Rapids campus did not have a comprehensive set of accounting records for federal financial aid.

The Coon Rapids campus did not have accounting records to track total financial activity in the federal student financial aid checking account on a daily basis by program. In addition, the campus did not record federal financial aid transactions in MnSCU accounting timely. The campus did not use MnSCU accounting as its primary accounting system for federal financial aid. Rather, the campus recorded financial aid activity in various records and combined these sources together at the end of the month to determine an ending cash balance to use for the bank reconciliation. The campus could not determine, on a particular day, the book balance in the federal financial aid account or the portion of that balance attributed to each federal program without piecing together various sources and performing calculations. The U.S. Department of Education's Blue Book states that program and fiscal records must show a clear and easily followed audit trail for expenditures of federal funds. Fiscal records must include general ledger and related subsidiary ledgers that identify each program transaction and separate those transactions from other financial transactions.

The campus used MnSCU accounting to record federal financial aid activity. However, the campus entered summary transactions for fiscal year 1996 activity in September 1996. For fiscal year 1997 activity, the campus entered summary transactions in June 1997 for most financial aid activities. However, as cited in Finding 1, the campus did not enter any federal college work study revenues for either fiscal year 1996 or 1997 onto MnSCU accounting. For fiscal year 1998 activity, the campus posted July through September financial aid expenditures in October 1997 and posted October through December 1997 expenditure transactions in January 1998. As of March 1998, the campus had not posted any fiscal year 1998 federal financial aid revenue transactions on MnSCU accounting. The campus also did not include MnSCU accounting in its bank reconciliation process for federal financial aid.

Recommendation

- *The Coon Rapids campus should prepare accounting records which track financial activity by program and by day. The campus should record financial aid activity on MnSCU accounting timely and include MnSCU accounting in its bank reconciliation process.*

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Status of Prior Audit Issues As of May 1, 1998

Most Recent Audits

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. This report had one finding related to Anoka Ramsey Community College. We reported that the Coon Rapids financial aid office made a questionable adjustment to one student's cost of attendance budget. The campus used professional judgment to increase the student's financial aid by an additional $2,824 for airfare and other expenses not related to the student's course of study. The college disagrees with this finding. The college believes that the Coon Rapids financial aid director "lawfully and appropriately exercised her professional judgment to increase a student's cost of attendance budget to reflect unanticipated dependent care and transportation expenses." The college is negotiating with the U.S. Department of Education to resolve the issue.

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. This report did not contain any findings related to Anoka Ramsey 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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AnokaRamsey Community College
Coon Rapids Campus

Office of the President
Coon Rapids Campus

July 29, 1998

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

Dear Mr. Nobles:

This letter is in response to Anoka-Ramsey Community College's financial audit for the period July 1, 1995, through June 30, 1997. Anoka-Ramsey Community College takes audits very seriously. We, as an organization, will work diligently to resolve all audit findings.

Below is our response to each finding:

Finding #1: Anoka-Ramsey Community College did not properly record all of its local activity on the MnSCU accounting system.

Anoka-Ramsey Community College (ARCC) will use MnSCU accounting for all transactions for local activities. These entries will be made on a timely basis. Additional non-MnSCU accounting systems will be used only for detail not available at this time in MnSCU accounting.

Finding #2: The Coon Rapids Campus did not successfully reconcile its MnSCU accounting records to the bank statement amounts.

The Coon Rapids Campus will work with the MnSCU system staff to resolve the unreconciled differences between its MnSCU accounting records and its bank accounts as recommended.

Finding #3: Anoka-Ramsey Community College did not adequately limit computer system access to those functions needed to perform job duties.

ARCC will review the various access/security reports and eliminate all employees that no longer need access to the systems.

Finding #4: The Coon Rapids Campus did not adequately separate duties related to tuition.

As of July 1, 1998, implementation of the recommendation occurred by having the payroll clerk from the Coon Rapids Campus review the daily deposit reports for accuracy.

Coon Rapids Campus
11200 Mississippi Blvd., NW
Coon Rapids, MN 55433-3470
Telephone 612 422-3435/Fax 612 422-3341

Cambridge Campus
300 Polk Street South
Cambridge, MN 55008
Telephone 612 689-7000/Fax 612 689-7050

Finding #5: The Coon Rapids Campus did not adequately separate duties relating to the continuing education receipts process.

The business office has reconciled deposit reports run by the Office and Administrative Specialist (OAS) with receipts on a daily basis. The Director of Continuing Education will run the daily deposit reports.

Finding #6: The Cambridge Campus did not promptly record tuition and fee revenue on the MnSCU accounting system.

All transactions are now being posted daily on the MnSCU accounting system.

Finding #7: The Coon Rapids Campus did not adequately separate duties over its Bookstore operations.

Duties have been reassigned to assure separation of duties.

Finding #8: Anoka-Ramsey Community College did not adequately track its equipment inventory.

The Cambridge Campus will implement an inventory control system which includes a yearly physical inventory count and accurate and timely inventory records. All assets of $10,000 and over will be entered on the system by July 31, 1998.

The business office at the Coon Rapids Campus has developed an internal system to report the move of equipment or the disposal of equipment.

Finding #9: The Coon Rapids Campus did not have a comprehensive set of accounting records for federal financial aid.

The Coon Rapids Campus will record its student financial aid activity on MnSCU accounting on a timely basis. A manual reconciliation of the bank account to MnSCU accounting will be prepared.

We appreciate this opportunity to provide our response to each finding. If you have any questions or concerns, please contact me.

Sincerely,

Dr. Patrick M. Johns
President

lb

c: Ms. Laura King, MnSCU Vice Chancellor
Mr. John Asmussen, MnSCU Director of Internal Audit
Ms. Bonnie Anderson, Anoka-Ramsey Community College Vice President
Dr. Dennis Adams, Anoka-Ramsey Community College Vice President and Dean—Cambridge