
Central Lakes College

Financial Audit

For the Period July 1, 1995, through June 30, 1998

May 1999

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

99-27

SUMMARY

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Central Lakes College

Financial Audit For the Period July 1, 1995, through June 30, 1998

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Background

Central Lakes College was created on July 1, 1995, when the Brainerd Community College merged with the Brainerd Staples Technical College. The individual colleges merged with other state universities, community colleges, and technical colleges to form the Minnesota State Colleges and Universities (MnSCU).

Our audit scope included a review of college financial management, tuition and fees, payroll, operating expenditures, and bookstore operations for the period July 1, 1995, through June 30, 1998. We also audited the administration of federal and state student financial aid programs for fiscal year 1999.

Conclusions

Central Lakes College operated within its available resources and had an effective process to monitor revenue and expenditure budgets. The college had adequate controls in place to provide reasonable assurance that financial activities were properly recorded on MnSCU accounting and MAPS.

Regarding the college's general financial management, the college was not able to reconcile its cash balance recorded on the MnSCU accounting system to the bank statements and did not evaluate its collateral balance for its local account. The college also did not monitor the status of its operating relationship with the college foundation, and needs to improve its security controls over college computerized business systems.

Central Lakes College also had internal control weaknesses and some instances of noncompliance with state and federal requirements related to tuition receipts, payroll, the bookstore, and student financial aid. The college did not promptly deposit tuition and customized training receipts with the state treasury and did not adequately safeguard tuition and fee revenues. The college did not monitor tuition administrative adjustments. The college did not adequately separate personnel and payroll functions and did not separate the work-study payroll input and disbursing functions. The college did not consistently conduct annual employee evaluations. The financial aid office had unnecessary access to financial aid checks. The Staples campus bookstore lacked proper separation of duties. The college did not complete a physical inventory of equipment, did not provide adequate security for the business office, and did not adequately safeguard newly purchased supplies and equipment in the bookstore and the maintenance room.

Central Lakes College agreed with the audit findings and has already taken significant action towards resolving the findings.



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

Members of the Minnesota State Colleges and Universities Board of Trustees

Ms. Sally J. Ihne, President
Central Lakes College

We have audited Central Lakes College for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included tuition and fees, payroll, operating expenditures, and bookstore activities. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1999.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that Central Lakes College complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of Central Lakes 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 Central Lakes College. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 14, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 26, 1999

Report Signed On: May 11, 1999

Central Lakes College

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Audit Participation

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

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Irene Hass	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Central Lakes College and the MnSCU system office at the exit conference held on April 28, 1999:

MnSCU System Office:

Laura King	Vice Chancellor, Chief Financial Officer
Rosalie Greeman	Associate Vice Chancellor
Deb Winter	Director of Campus Accounting
John Asmussen	Executive Director – Internal Auditing
Melissa Primus	Audit Coordinator – Internal Auditing

Central Lakes College:

Sally Ihne	President
Kari Christiansen	Director of Business Services
Lori Bates	Assistant Director of Business Services

Chapter 1. Introduction

Central Lakes College is comprised of Brainerd Community College and the Brainerd Staples Technical College. Brainerd Community College was formed in 1938 as part of the local school district. At that time, the college included both technical career programs and a college transfer program. Staples Technical Institute was opened in 1959. The Brainerd Technical Institute was opened in 1964. In 1963 the State of Minnesota formed the State Junior College System. The Brainerd Community College transfer classes became a part of the new Junior College System, while the technical programs remained under the auspices of the school district. In 1991 the Board of State Technical Colleges combined the administration of Brainerd Technical College with Staples Technical College to form the Brainerd Staples Technical College. Brainerd Community College and the Brainerd Staples Technical College were consolidated to create the Central Lakes College on July 1, 1995.

The Staples Campus remains the center for training in heavy equipment, machine tool technology, media and communications, and a unique robotics and automated systems technology program. The Brainerd Campus provides 26 technical programs and a two-year liberal arts transfer curriculum. Central Lakes College has 139 full-time faculty. Sally Ihne was president of the Brainerd Community College prior to the consolidation into MnSCU. The MnSCU Board of Trustees appointed Sally Ihne president of Central Lakes College in 1995. Table 1-1 shows attendance at Central Lakes College for fiscal years 1996-1998.

Table 1-1
Central Lakes College
Full-Year Equivalent (FYE) Student Counts

Course Study	Fiscal Year <u>1996</u>	Fiscal Year <u>1997</u>	Fiscal Year <u>1998</u>
Liberal Arts Division	1,267	1,249	1,334
Technical Division	<u>1,353</u>	<u>1,313</u>	<u>1,207</u>
Total FYE	2,620	2,562	2,541

Source: Central Lakes College Human Resource Division.

The financial activity for fiscal year 1998 for Central Lakes College is shown in Table 1-2. State appropriations and tuition and fees support the General Fund Activity. The Special Revenue Fund includes federal and state student financial aid. The Enterprise Fund includes financial activities from the bookstore and parking.

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**Table 1-2
Central Lakes College
Fiscal Year 1998 Financial Activity**

	General Fund	Special Revenue Fund	Enterprise Fund
Beginning Balance	\$ 3,078,635	\$ 351,605	\$ 620,911
Revenue:			
State Appropriation	12,666,343		
Tuition and Fees	5,957,363	308,341	
Bookstore Receipts			1,172,749
Student Financial Aid		3,622,323	
Federal Grants		585,854	
State Grants	600,583	137,695	
Parking Fees			47,544
Non-Mandatory Transfers	560,871	125,721	166,838
Other	<u>441,434</u>	<u>439,836</u>	<u>85,672</u>
Total Revenue	<u>\$20,226,594</u>	<u>\$5,219,769</u>	<u>\$1,472,803</u>
Expenditures:			
Salaries and Fringe	\$13,113,405	\$ 665,683	\$ 220,890
Purchased Services	1,865,533	238,088	948
Supplies	1,730,851	276,706	25,421
Equipment	611,629	12,354	11,284
Bookstore Purchases			921,153
Student Financial Aid		3,613,299	
Non-Mandatory Transfers	527,565	140,636	121,480
Other	<u>2,064,227</u>	<u>281,875</u>	<u>136,209</u>
Total Expenditures	<u>\$19,913,210</u>	<u>\$5,228,642</u>	<u>\$1,437,385</u>
Fund Balance as of June 30, 1998	<u>\$ 3,392,019</u>	<u>\$ 342,733</u>	<u>\$ 656,329</u>

Note: The financial information is presented in the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activities not included in the table are tuition receivables not collected as at the close of books and compensated absence liabilities. The college has reserved \$1,928,620 of the ending General Fund Balance for future commitments that include repair and betterments, customized training, and encumbrances and grants. The reserve also includes funds for the Central Minnesota Distance Learning Network (CMDLN) of which Central Lakes College is the fiscal agent. The college's June 30, 1998, compensated balance is estimated to be \$1,340,853. Enterprise activities do not include all operating costs such as rent, utilities, or depreciation.

Source: MnSCU to MAPS Trial Balance as of February 9, 1999.

Central Lakes College is affiliated with the Central Lakes College Foundation, which is a separate non-profit organization. The foundation has its own board of directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts that were audited by a CPA firm. The foundation received staffing and other administrative support from Central Lakes College, totaling approximately \$50,000 for each fiscal year. In return, the foundation provided student scholarships and grants that benefit the educational mission of the college. The fiscal year 1997 financial statements showed the foundations awarded \$62,000 in scholarships. As explained in Chapter 2, Finding 2, the college needs to improve some aspects of its relationship with the foundation.

Chapter 2. Financial Management

Chapter Conclusions

Central Lakes College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college had adequate controls in place to provide reasonable assurance that financial activities were properly recorded on MnSCU accounting and MAPS. However, the college needs to make some improvements to its financial management.

- *The college was not able to reconcile its cash balance recorded on the MnSCU accounting system to the bank statements.*
- *The college did not monitor the status of its operating relationship with the college foundation.*
- *The college did not evaluate its collateral balance for its local account.*
- *Security controls to access college computerized business systems require improvement.*
- *As discussed in Chapters 3 through 7, there were a number of internal control issues related to tuition receipts, payroll, the bookstore, and student financial aid.*

MnSCU receives the majority of its funding for operations from General Fund appropriations and tuition and fees assessed to students. The MnSCU system office allocates state appropriations to Central Lakes College, and all other universities and colleges, based upon an allocation formula.

The statewide accounting system (MAPS) is the primary accounting system for funds held in the state treasury. Campuses use the MnSCU accounting system to initiate transactions that interface into MAPS to generate warrants from the state treasury. Campuses also administer certain activities in local bank accounts, such as the bookstore and student financial aid. MnSCU requires that colleges record all local activities on MnSCU accounting to provide a complete and comprehensive view of all college finances

Audit Objectives and Methodology

Our review of Central Lakes College overall financial management focused on the following objectives:

- Did the college design and implement internal controls to provide reasonable assurance that financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?

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- Did the college design and implement internal controls to provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college design and implement internal controls to provide reasonable assurance that it had an appropriate relationship with related organizations?

To answer these questions, we interviewed college personnel to gain an understanding of the use of MnSCU accounting for the program areas included within our audit scope. We also gained an understanding of management controls, such as budget monitoring and reconciliations, in place over financial activities.

Conclusions

- Central Lakes College operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college had controls in place to provide reasonable assurance that financial activities were properly recorded on MnSCU and MAPS. The college was not able to reconcile its cash balance recorded on the MnSCU accounting system to the bank statements.
- The college did not monitor the status of its operating relationship with the college foundation.
- The college did not evaluate its collateral balance for its local account.
- Security controls to access college computerized business systems require improvement.
- As discussed in Chapters 3 through 7, there were a number of internal control issues related to tuition receipts, payroll, the bookstore, and student financial aid.

1. PRIOR AUDIT FINDING PARTIALLY RESOLVED: The college was unable to reconcile the cash balance recorded on the MnSCU accounting system to the bank statements.

Central Lakes College was unable to resolve differences between the cash balance recorded on the MnSCU accounting system to the cash in its Central Lakes College bank account. In fiscal years 1996 through 1998, the college attempted to reconcile on an annual basis the cash in the bank to the cash balance on their accounting system. Differences between the cash balance recorded on MnSCU accounting to the cash in the bank ranged from \$1,154 to \$5,260. The college started reconciling on a monthly basis in fiscal year 1999. The reconciliation process resulted in differences ranging from \$14,707 in July 1998 to \$52,240 in October 1998. Finally, for November and December of fiscal year 1999, they identified a consistent difference of \$51,721 more in the bank than on MnSCU accounting. However, the college has not been able to determine the reason for the difference. To ensure the accuracy of accounting records, the college should perform timely and complete reconciliations of cash balances to bank account activity.

Recommendation

- *The college should review accounting records and make appropriate adjustments for the cash differences. Any future differences between accounting records and bank account activity should be identified and resolved in a timely manner.*

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2. The college did not monitor the status of its operating relationship with the college foundation.

Central Lakes College had three separate foundations for fiscal years 1996 and 1997. The Brainerd Technical College Trust Foundation and the Staples Trust Association supported the Brainerd Staples Technical College, while the Brainerd Community Lakes College Foundation supported the Brainerd Community College. The foundations operated independently until fiscal year 1998, when they merged to form the Central Lakes College Foundation. The college established a contract with the foundation in fiscal year 1998. As explained below, the foundation's bylaws conflicted with the contract provisions. Also, the college did not review its financial relationship with the foundation, and did not bill or collect the foundation scholarships in a timely manner.

A provision in the foundation bylaws conflicted with MnSCU contract requirements. Six members of the foundation board are faculty at the college. The contract between the college and the foundation states that faculty serving on the foundation board shall not be voting members of the board. However, the foundation board bylaws state that all members shall have voting rights at the annual meeting. Consequently, the six faculty board members would have voting rights for the annual meeting, which would violate the provisions of the contract. A representative of the foundation stated that this provision was a carryover resulting from the merger of the three foundations. He further stated that the foundation would revise the bylaws to reflect the provisions of the contract.

The college did not review the financial status of its relationship with the foundation. The foundation had a fund balance of \$2,244,279 as of December 31, 1997. The foundation provided students \$62,000 in scholarship aid during fiscal year 1997. In analyzing the foundation contributions to the college in fiscal year 1997, we concluded that the amount of scholarship aid exceeded the cost of the college's administrative assistance to the foundation. The college did not complete this exercise on a routine basis. Contract provisions require that the college evaluate the status of the contract on an annual basis.

Finally, the college did not bill or collect the foundation scholarships timely in fiscal year 1999. The fall semester registration began in August 1998. After the drop out period, the college reviewed and prepared the billing to the foundation for scholarship awards. The college did not bill the foundation for \$58,000 of scholarship aid credited to the student's accounts until October 21, 1998. They did not receive the check from the foundation until January 12, 1999. As a result, the college carried the cost of the scholarship aid for approximately four months.

Recommendations

- *The college should ensure that none of the faculty on the foundation board have voting rights.*
- *The college should annually review the financial cost and operation of providing administrative services to the foundation.*
- *The college should ensure that it bills the foundation and collects the scholarship aid in a timely manner.*

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3. The college did not evaluate its collateral balance for its local account.

The college's local bank did not maintain sufficient collateral for the college bank account for specific periods during the year. Minnesota Statutes require state agencies to establish collateral equal to 110 percent of the amount on deposit at the close of the business day, less any insured portion.

The college did not maintain sufficient collateral during the months of August and December. Tuition receipts during these peak registration periods increased the bank balance above the collateralized amount. For example, the bank balance on August 31, 1998, was \$2,419,395, while the market value of the collateral was approximately \$1,451,663. The remaining months of the year the bank balance was below the collateralized amount. To provide for sufficient collateral, the college should obtain additional collateral for the months of December and August. The college should also review the relationship between the bank balances and the collateralized amount during the rest of the year to monitor its collateral needs.

Recommendation

- *Central Lakes College should monitor bank cash and collateral balances to ensure the bank pledges sufficient collateral to safeguard the college's account.*

4. Security controls to access college computerized business systems require improvement.

Central Lakes College did not adequately monitor access to its computerized business systems, including MnSCU accounting, SCUPPS personnel/payroll, and College Information System (CIS). The college has primary authority and responsibility to ensure employee access is necessary based upon job responsibilities. College departments did not periodically review system user reports to monitor employee access to MnSCU accounting, SCUPPS, and CIS. The business office did periodically monitor the propriety of its staff's access to MnSCU accounting, but could not determine whether access was limited to only appropriate staff. The computer system administrator did not distribute monthly reports showing individuals with system access. The monthly reports would allow each department to periodically review system access and ensure it is limited to authorized employees.

Recommendation

- *Central Lakes College should improve security access controls by periodically reviewing system user security reports and correcting any inappropriate system access.*

Chapter 3. Tuition, Fees, and Other Receipts

Chapter Conclusions

We noted internal control weaknesses in various receipt areas. The college did not promptly record or deposit customized training receipts timely. The college had inadequate separation of duties for staff in certain areas of the revenue process.

Central Lakes College collected tuition and fees each quarter from students enrolled in campus programs. The college used the Collegiate Information System (CIS) to register, bill, and collect tuition receipts. The resident tuition rate was \$40 plus fees for fiscal year 1996, \$41.60 plus fees in fiscal year 1997, and \$42.65 plus fees in fiscal year 1998.

Tuition, fees, and non-credit tuition revenue for fiscal years 1996 to 1998 are shown in Table 3-1.

Table 3-1
Tuition Revenue
Fiscal Years 1996, 1997, and 1998

<u>Revenue Source</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Tuition	\$5,009,667	\$4,903,905	\$5,106,071
Fees	614,413	749,312	720,006
Non-credit tuition	<u>551,212</u>	<u>626,324</u>	<u>439,662</u>
Total	<u>\$6,175,292</u>	<u>\$6,279,540</u>	<u>\$6,265,739</u>

Source: MnSCU to MAPS Trial Balance as of February 8, 1999.

Along with traditional community and technical college courses, Central Lakes College also offered various specialized programs. The continuing education program provided consultation and educational services to businesses, public institutions, and non-profit organizations in central Minnesota. Non-credit offerings ranged from computer systems training to heavy machinery. The Farm Business Management (FBM) and Small Business Management (SBM) programs provided courses in business and farm management at off campus sites. In addition, the college collected other receipts for student activities and vending commissions.

Audit Objectives and Methodology

We focused our review of tuition, fees, and other revenue on the following questions:

- Did the 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 authorization?

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- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions governing tuition?

To answer these questions, we interviewed college employees to gain an understanding of the internal controls over the billing, collecting, and recording of tuition, fees, and other revenue. We determined the reasonableness of tuition revenue recorded on the MnSCU accounting system in relation to the recorded credits on CIS. We reviewed the tuition and fees collected by the customized training centers. We also tested transactions to determine the timeliness of deposits and recording of revenue on the MnSCU accounting system.

Conclusions

We noted internal control weaknesses in various receipt areas. The college did not promptly record or deposit customized training receipts timely. The college had inadequate separation of duties for staff in certain areas of the revenue process. Findings 5 through 8 discuss these issues.

5. PRIOR FINDING PARTIALLY RESOLVED: Central Lakes College did not promptly deposit tuition and customized training receipts with the state treasury, as required by statutory provisions.

The college's delays in posting tuition receipts on the MnSCU accounting system resulted in untimely transfers of the tuition receipts from its local account to the state treasury. Although the college deposited its tuition receipts into its local bank account each day, it posted those deposits to the MnSCU accounting system only three to four times per month. Sometimes the college did not post the receipts to the MnSCU accounting system until up to a month after the deposit. The college's posting of the deposit to the MnSCU accounting system initiates the transfer to the state treasury account. Until the posting occurs, the deposited tuition receipts remain in the college's local account. Minn. Stat. Section 16A.275 requires that the college deposit receipts exceeding \$250 daily with the state treasury. During fiscal year 1998 and more recently, the college shortened, but did not eliminate the delay between the deposit of the receipts into the local bank account and the posting on MnSCU accounting.

In addition, Central Lakes College did not promptly deposit customized training receipts. The college held customized training tuition receipts while it determined whether it would hold or cancel the class. The college did this so it could return the unendorsed checks to the class registrants if it cancelled the class. If the college did not cancel the class, it prepared the deposit and took the receipts to the bank. In October 1998, the college directed its customized training office to discontinue its practice of holding checks and to deposit its receipts daily.

Recommendation

- *The college should deposit receipts totaling \$250 or more on a daily basis and promptly record those deposits on the MnSCU accounting system to allow for their timely transfer to the state treasury account.*

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6. PRIOR AUDIT FINDING SUBSTANTIALLY RESOLVED: The college did not adequately separate duties over the collection of customized training receipts and the billing of third party funding.

The college did not adequately segregate duties related to customized training receipts. The staff in the customized training centers registered students, collected receipts, and prepared the daily deposits. These duties are incompatible since staff could change the registration data to hide a misappropriation of tuition funds. Colleges often prevent this weakness in the control system by separating the registration function from the cashiering function. For example, the college could send receipts directly to the business office.

We also found inadequate separation of duties over the billing process for third party funding. One individual in the business office was responsible for billing the companies, collecting the receipts, and posting to accounts receivable. Concentrating the billing and collection responsibilities creates an environment where an employee could misappropriate receipts and adjust the billing records to reflect the payment without detection.

Recommendations

- *The college should establish an adequate separation of duties over the customized training registration and cashiering responsibilities.*
- *The college should establish an adequate separation of duties over the billing, collection, and accounts receivable responsibilities.*

7. Central Lakes College did not adequately safeguard tuition and fee revenues.

During our audit, we observed that the Staples Customized Training Center did not restrictively endorse checks until it prepared the deposit. Restrictively endorsing checks when received reduces the risk of a lost or stolen check being cashed.

We also found that the college did not provide adequate security for employees and receipts in transit between the college and the bank. Without adequate safeguards, employee safety and the security of deposits are at risk.

Recommendations

- *The college should restrictively endorse checks when received.*
- *The college should review the options for providing security for employees and cash when in transit between the college and the bank.*

8. The college did not monitor tuition administrative adjustments.

Central Lakes College did not verify the propriety of tuition administrative adjustments. Some employees in the business office had access to cash and the authority to perform refunds and administrative adjustments. Administrative adjustments allow the employees to make changes to student account receivable records. Employees are required to perform adjustments on a specified terminal and the transactions are logged by user ID. However, the weekly report listing

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all administrative adjustments is not independently reviewed. The lack of an independent review increases the risk of errors or irregularities occurring and going undetected.

Recommendation

- *The college should independently review administrative adjustments.*

Chapter 4. Payroll

Chapter Conclusions

Central Lakes College designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the institution complied, in all material respects, with the significant finance-related legal provisions concerning payroll. However, the college did not adequately separate personnel and payroll functions and did not provide unique logon identification access to the payroll system. The college also did not consistently conduct annual employee evaluations.

Central Lakes College employed approximately 346 staff during fiscal year 1998, including 139 full-time and 81 part-time faculty and 126 non-faculty personnel. Payroll expenditures totaled approximately \$14 million for fiscal year 1998. Employees at Central Lakes College are members of the following compensation plans:

- American Federation of State and County Municipal Employees (AFSCME),
- United Technical College Educators Plan (UTCE),
- Minnesota Community College Faculty Association (MCCFA),
- Middle Management Association (MMA),
- Minnesota Association of Professional Employees (MAPE),
- Commissioner's Plan,
- Managerial Plan,
- Master Agreement between Minnesota State Colleges and Universities Board of Trustees and United Technical College Educators and Unrepresented Bargaining Unit (UNR), and
- Excluded Administrators.

During fiscal year 1996, the college used the state's personnel/payroll system (PPS) and the State Colleges and Universities Personnel/Payroll System (SCUPPS) to process payroll information. SCUPPS stored pay rate information and bargaining agreement history. The PPS contained pay rate information and calculated employee biweekly payments. The college converted from PPS to the state's new SEMA4 payroll system in November 1996.

Central Lakes College had a human resources and payroll department located in Brainerd. The human resources offices updated SCUPPS appointments and salaries. The payroll office collected employee timesheets for update of SEMA4 mass time entry and was responsible for ensuring proper recording of payroll expenditures in MnSCU accounting. The college began to input its own payroll in November of 1996.

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Audit Objectives and Methodology

Our review focused on the following objective:

- Did Central Lakes College design and implement internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning payroll?

To answer these questions, we made inquiries of college staff to gain an understanding of the internal control structure over the payroll and personnel process. We analyzed payroll expenditures to determine proper recording of payroll transactions, reviewed source documents to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions.

Conclusions

Central Lakes College designed and implemented internal controls to provide reasonable assurance that payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, the institution complied, in all material respects, with the significant finance-related legal provisions concerning payroll. The college did not appropriately separate human resource duties and did not provide unique logon identification access into the payroll system. The college also did not consistently conduct annual employee evaluations.

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

Central Lakes College did not separate the personnel and payroll functions. The college had one employee assigned to enter timesheets into the payroll system. If this individual was not available, someone from the personnel office would enter the timesheet data into the payroll system. Access to both SCUPPS and SEMA4 could permit an employee to make unauthorized personnel changes to SCUPPS and use those transactions to generate improper payroll transactions in SEMA4. Also, the employee from the personnel office used the payroll employee's logon ID and password to access the state's payroll system. In order to prevent errors and irregularities from occurring, the college should separate the personnel and payroll data entry functions and assign unique user IDs to staff.

Recommendations

- *Central Lakes College should provide someone who is not an employee in human resources as a backup for timesheet data entry.*
- *The college should not allow staff to share logon IDs.*

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10. Central Lakes College did not consistently conduct annual evaluations.

Central Lakes College did not consistently conduct annual evaluations of all of its employees during the three years included within our audit scope. We found that 16 of the 22 employees tested did not have current annual evaluations. Some compensation plans require annual evaluations, while others may require that employee increases be based upon satisfactory progress as shown on their evaluations. Central Lakes College should conduct annual evaluations to advise employees of the quality of their work and to provide the college with a basis for employee raises and promotions.

Recommendation

- *The college should conduct annual employee performance evaluations.*

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Chapter 5. Student Financial Aid

Chapter Conclusions

Central Lakes College designed and implemented internal controls to provide reasonable assurance that financial transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable federal regulations. Central Lakes College also complied with applicable federal requirements over receiving federal funds, and designed internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. However, we found that the college did not restrict access to financial aid checks. In addition, the college did not separate the work-study payroll input and disbursing functions.

The Central Lakes College participated in several federal student financial aid programs administered by the U.S. Department of Education. Table 5-1 summarizes program expenditures for fiscal year 1998.

**Table 5-1
Federal Financial Aid Expenditures
Fiscal Year 1998**

<u>CFDA Number</u>	<u>Program</u>	<u>Total Expenditures</u>
84.032	Federal Family Loan (FFEL)	\$2,501,180
84.063	Federal PELL Grant	1,788,146
84.007	Federal Supplemental Educational Opportunity Grant (FSEOG)	159,800
84.033	Federal Work-Study (FWS)	207,589

Note: SEOG and Federal Work-Study expenditures include both the federal and state share.

Source: Auditor prepared based on information provided by Central Lakes College.

Central Lakes College used an automated financial aid system called SAFE to determine a student's financial need and identify the financial aid options available to that student. SAFE automatically allocated PELL grants, FSEOG, and Minnesota State grants to eligible students. After the system determined these awards, the college determined the student's eligibility for FFEL loans and college work-study. The college posted financial aid award information to the student registration system, adjusting awards as needed based upon a student's actual enrollment status after the drop/add period for the term. The Financial Aid Office credited student financial

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aid awards to the student's tuition receivable account. The business office generated checks to the students for any aid in excess of the tuition and fees owed the college.

Following are descriptions of the material federal and state financial aid programs:

- The Federal PELL Grant was generally the first source of financial assistance to an eligible student. SAFE determined the Federal PELL Grant awards using the cost of attendance and the expected family contribution. The U.S. Department of Education provided Federal PELL Grant funds to each campus based on the enrollment of eligible students.
- Under the Federal Family Education Loan Program, private lenders provided the loan principal, and the federal government guaranteed the loan in the event of default or cancellation. For subsidized Stafford loans, the federal government paid interest to the lender while the student was in school and during certain deferment periods. For unsubsidized Stafford loans, the student paid all interest that accrued on the loan.
- Federal Supplemental Educational Opportunity Grants were awarded to exceptionally needy undergraduate students. SAFE determined a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education funded 75 percent of the Federal Supplemental Educational Opportunity Grants and the college funded the remainder.
- The Federal Work-Study program provided part-time employment for students who continued to have financial need after receiving all available grants. Like FSEOG, the U.S. Department of Education funded 75 percent of the Federal Work-Study Program and the college funded the remainder.
- The college also participated in the Minnesota State Grant program, which is funded by the Minnesota Higher Education Services Office. Eligible students must register and attend classes for fifteen credits to receive their full grant award. In fiscal year 1998, the college disbursed \$1,106,636 of the Minnesota State Grants.

Audit Objectives and Methodology

The primary objectives of our audit were to answer the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that financial transactions for student financial aid were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable federal regulations?
- Did the college comply with applicable legal requirements over receiving federal funds?
- Did the college design and implement internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts?

Central Lakes College

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.

Conclusions

Central Lakes College designed and implemented internal controls to provide reasonable assurance that financial transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable federal regulations. Central Lakes College also complied with applicable federal requirements over receiving federal funds, and designed internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. However, we found that the college did not restrict access to financial aid checks. In addition, the college did not separate the work-study input payroll function and disbursing function.

11. PRIOR AUDIT FINDING SUBSTANTIALLY RESOLVED: The financial aid office had unnecessary access to financial aid checks.

The financial aid staff had access to FFEL financial aid checks. The college received the majority of its financial aid through electronic fund transfers, but received some financial aid as checks. Although the business office received FFEL checks directly from lenders, they gave the checks to the financial aid staff to process on the SAFE system.

The financial aid office is responsible for determining and documenting student eligibility for all federal financial aid programs. The financial aid office authorizes financial aid awards. To improve internal controls and prevent potential misuse of financial aid funds, the college needs to ensure that employees who can authorize financial aid do not have access to those funds.

Recommendation

- *The college's business office should directly receive and distribute financial aid checks.*

12. Central Lakes College did not separate the work-study payroll input and disbursing functions.

For the Campus Work-Study Program, which includes federal, state, and institutional work-study, the college did not separate the payroll input and disbursing functions. One business office employee input work-study payroll hours, received the work-study checks, and mailed the checks to the students. Without an adequate separation of duties, the risk of errors or irregularities not being detected in a timely manner increases. Improperly segregated functions also increase the risk of erroneous or incomplete transactions in the accounting records.

Recommendation

- *The college should separate the work-study payroll input and disbursing functions.*

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Chapter 6. Bookstore Operations

Chapter Conclusions

Central Lakes College designed and implemented 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 requirements and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance-related legal provisions concerning bookstore expenditures. However, we found that the Staples campus did not have an adequate separation of duties. In addition, the Staples campus did not have adequate controls over returns and voided transactions.

Central Lakes College operated bookstores on campuses in both Brainerd and Staples. The college employed three staff at the Brainerd campus bookstore and one staff at the Staples campus. These bookstore employees reported to the bookstore manager. Both bookstores sold a variety of products including textbooks, supplies, gifts, apparel, greeting cards, and stamps. Table 6-1 illustrates bookstore revenues and expenses for fiscal year 1998.

Table 6-1
Summary of Bookstore Revenues and Expenses
Fiscal Year 1998

Revenue:	<u>Brainerd</u>	<u>Staples</u>	<u>Total</u>
Sale of books	\$790,767	\$ 98,940	\$ 889,707
Sale of school supplies	149,690	36,333	186,023
Sale of apparel	25,831	7,762	33,593
Other revenue	<u>20,744</u>	<u>42,683</u>	<u>63,427</u>
Total Revenue	<u>\$987,032</u>	<u>\$185,718</u>	<u>\$1,172,750</u>
 Cost of Goods Sold	 <u>\$714,273</u>	 <u>\$139,659</u>	 <u>\$ 853,932</u>
Gross Profit	<u>\$272,759</u>	<u>\$ 46,059</u>	<u>\$ 318,818</u>
 Expenses:			
Bookstore salaries	\$114,738	\$ 37,525	\$ 152,263
Other Operating Expenses	<u>40,864</u>	<u>6,773</u>	<u>47,637</u>
Total Expenses	<u>\$155,602</u>	<u>\$ 44,298</u>	<u>\$ 199,900</u>
 Net Profit or (Loss)	 <u>\$117,157</u>	 <u>\$ 1,761</u>	 <u>\$ 118,918</u>

Note 1: This financial information does not include allocations for rent, utilities, and depreciation costs.

Note 2: In fiscal year 1998, the college used \$118,004 of the Brainerd bookstore's accumulated fund balance to eliminate a deficit in the child care operation and to correct the fiscal year 1996 accounts receivable balance.

Source: MnSCU Trial Balance Report as of February 8, 1999.

Central Lakes College

The Brainerd campus bookstore accounted for sales through a point-of-sale computer program called MicroBiz. MicroBiz was directly linked to the cash registers. The college used the MicroBiz system to prepare purchase orders, account for bookstore sales, maintain accounts receivable, and manage inventory. The Staples campus used a cash register.

Audit Objectives and Methodology

The primary objective of our audit of the bookstore focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore revenue and disbursement transactions were accurately recorded in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning bookstore expenditures?

To answer these questions, we interviewed the bookstore and business office personnel to gain an understanding of the controls in place over bookstore revenues and expenses. We tested samples of transactions to determine if the college had adequate supporting documentation and had accurately recorded the transactions on MnSCU accounting. We also conducted analytical procedures to determine whether the revenue and expenses recorded on MnSCU accounting were reasonable.

Conclusions

Central Lakes College designed and implemented 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 requirements and management's authorization. For the items tested, the college complied, in all material respects, with the significant finance related legal provisions concerning bookstore expenditures. However, we found that the Staples campus did not have an adequate separation of duties as discussed in Finding 13.

13. The Staples campus bookstore lacked proper separation of duties.

The college did not separate key financial duties at the Staples campus bookstore. The bookstore employee was responsible for a number of incompatible activities and accounting functions. The conflicting duties included the following:

- Collecting cash receipts, reconciling the cash drawer, and preparing the bank deposits;
- Purchasing and receiving the goods, authorizing payment, and also performing physical inventory counts.

Without an adequate separation of duties or an independent review, the risk of errors or irregularities occurring and going undetected increases. The lack of proper separation of duties

Central Lakes College

also increases the risk of erroneous or incomplete transactions existing in the accounting records. Inventory shortages could also occur and go undetected.

Also, information recorded on the MnSCU accounting system was not reconciled to the bookstore's cash register tapes or other source documents to ensure that MnSCU accounting records were accurate. A reconciliation of MnSCU accounting records to the source documents would help ensure that all cash transactions were correctly recorded on MnSCU accounting.

Finally, the Staples bookstore employee did not prepare documentation supporting voided transactions or bookstore returns. As a result, no one independent of the bookstore operations was able to verify that these transactions were valid. Preparing adequate supporting documentation and independently reviewing the propriety of voided transactions and returns reduces the risk that receipts could be diverted through inappropriate transactions.

Recommendations

- *The college should properly separate duties and perform independent reconciliations to ensure the accuracy and completeness of its bookstore financial operations.*
-
- *The college should prepare and independently review supporting documentation for voided transactions and returns.*

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Chapter 7. Purchased Services, Supplies, and Equipment

Chapter Conclusions

Central Lakes College designed internal controls to provide reasonable assurance that purchased services, supplies, and equipment expenditures were adequately safeguarded and accurately recorded in the accounting records. However, the college did not complete a physical inventory. Central Lakes College also did not safeguard newly purchased supplies and equipment, and did not provide adequate security over the property and records in the business office. For the items tested, the college complied with MnSCU's purchasing policies and management's authorization.

Central Lakes College incurred expenditures for purchased services, supplies, and equipment totaling \$4,772,814 in fiscal year 1998. The college had a centralized purchasing department responsible for ordering and purchasing supplies, equipment, and services for the college. Employees submitted approved purchase requisitions to the purchasing department before ordering supplies, services, or equipment. Purchasing staff reviewed the budget, ensuring that sufficient funds were available in the applicable cost center, and used MnSCU guidelines to solicit bids and select vendors to complete the purchases. The employees reviewed the packing slips and compared them to the purchase order for accuracy. Accounts payable staff matched authorized invoices to the respective purchase order before processing the payment. Table 7-1 provides a breakdown of fiscal year 1998 purchases by fund type.

Table 7-1
Central Lakes College
Purchased Services, Supplies, and Equipment Expenditures by Fund Type

<u>Description</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>
Purchased Services	\$1,865,533	\$238,088	\$ 948
Supplies	1,730,851	276,706	25,421
Equipment	<u>611,629</u>	<u>12,354</u>	<u>11,284</u>
Total	<u>\$4,208,013</u>	<u>\$527,148</u>	<u>\$ 37,653</u>

Note: Purchased services include rent, repairs, utilities, and other miscellaneous services.

Source: MnSCU Trial Balance as of February 8, 1999.

Central Lakes College

Audit Objectives, Scope, and Methodology

Our primary objectives for purchased services, supplies, and equipment were to answer the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that supply, equipment, and purchased services expenditures were accurately reported in the accounting records, adequately safeguarded, and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the college comply, in all material respects, with the significant finance-related legal provisions concerning supplies, purchased services, and equipment expenditures?

To address these questions, we made inquiries of college staff to gain an understanding of the internal controls over purchasing and the disbursement process for services, supplies, and equipment. We performed analytical reviews and tested a sample of expenditure transactions by tracing to supporting documentation and the accounting records. We tested transactions to ensure that the college followed MnSCU's purchasing policies and management's authorization.

Conclusion

Central Lakes College designed internal controls to provide reasonable assurance that purchased services, supplies, and equipment expenditures were adequately safeguarded and accurately recorded in the accounting records. However, the college did not complete a physical inventory. Central Lakes College did not safeguard newly purchased supplies and equipment, and did not provide adequate security over the property and records in the business office. For the items tested, the college complied with MnSCU's purchasing policies and management's authorization.

14. Central Lakes College did not complete a physical inventory of equipment.

Central Lakes College had not completed a physical inventory of equipment located at the campuses. The college initiated a physical inventory in January 1999 and had completed the physical inventory of the Staples campus. The college's physical inventory on the Brainerd campus was in progress in March 1999. Physical inventory counts and complete fixed asset records are essential to safeguard and control college assets. The current value of equipment recorded on the inventory listing is \$4 million.

Recommendation

- *Central Lakes College should complete a physical inventory count and ensure the proper recording of all equipment on its fixed assets system.*

Central Lakes College

15. Central Lakes College did not provide adequate security for the business office and did not adequately safeguard newly purchased supplies and equipment in the bookstore and maintenance room.

Central Lakes College had not developed security measures to safeguard the property and records in the student services area at the Brainerd campus, which includes the business office. The student services area has five business windows. At the end of the day, the business office staff pulled down individual gates for each window. These gates were not secured by any locking mechanism to prevent unauthorized access.

The college also did not ensure the security of supplies delivered to the Brainerd bookstore. The Brainerd campus bookstore's receiving area was not secure. An adjacent door was not locked to prevent unauthorized access.

Similarly, the storage area for general college deliveries was not secure. In addition, supplies and equipment were unattended on a cart in the hallway next to the information room.

Recommendations

- *Central Lakes College should secure the gates in the student services area when the office is closed.*
- *The college should secure the storage areas for the bookstore and the main delivery area by locking or preventing access. The college should find an alternate means of delivering supplies at the Brainerd campus.*

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Status of Prior Audit Issues As of March 12, 1999

Most Recent Audit

Legislative Audit Report 99-19, issued in March 1999, covered activities material to the state's general purpose financial statements for the year ended June 30, 1998. It included the testing of federal programs to determine compliance with federal requirements. The report did not include any findings related specifically to Central Lakes College.

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 did not include any findings related specifically to Central Lake College.

Other Audit History

Legislative Audit Report 96-35, issued in August 1996, covered the transition of technical colleges into state government. This report included an audit of the business systems and the transfer of technical college assets to the state, payroll, tuition and fees, and student financial aid. A number of issues related to the Central Lakes College were included in the report. Four issues remain partially unresolved. As explained in Finding 1, the college was unable to reconcile the cash balance recorded on the MnSCU accounting system to the bank statements. The college did not promptly record tuition revenue and timely deposit customized training tuition, as reported in Finding 5. The college did not adequately separate the duties over the collection of customized training receipts and the billings of third party funding, as discussed in Finding 6. Finding 11 explains that the financial aid office had unnecessary access to financial aid checks.

State of Minnesota Audit Follow-Up Process
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<p>The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial aid 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 the Internal Auditing is satisfied that the issues have been resolved. The process covers all colleges and universities within the MnSCU system.</p>
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May 7, 1999

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of Central Lakes College (CLC) for the period from July 1, 1995 through June 30, 1998. Central Lakes College's formal written response to the audit findings is enclosed.

It is important to note that the audit period covered the time that Brainerd Community College and Brainerd Staples Technical College, and the MnSCU system was going through merger. This was a time of significant change not only with personnel but also with new computer systems.

We agree with the issues presented in the audit report, but believe that the number of audit findings is not reflective of the issues at CLC. We take great pride in our internal controls, and don't feel that the issues presented in the audit report put us at great risk. We are also concerned that the reader of this report will get the wrong impression of the financial management at CLC. I feel we have a very conscientious staff and I am very supportive of our Business Office. We are committed to continuous quality improvement and we see this process as a way of helping us get better at what we do.

We have made significant progress in resolving the audit findings. We appreciate the opportunity to share the improvements we have made since the audit and our plans to implement the recommendations.

Please contact me if you have questions regarding the attached responses.

Sincerely,

Sally J. Ihne
President

Enclosure

Brainerd

501 West College Drive
Brainerd, MN 56401
(218) 828-2525
800-933-0346

Staples

1830 Airport Road
Staples, MN 56479
(218) 894-1168
800-247-6836



Response to Audit Findings
Central Lakes College
May 7, 1999

Finding 1: Prior Finding Partially Resolved: The college was unable to reconcile the cash balance recorded on the MnSCU accounting system to the banks statements.

Central Lakes College (CLC) is making every effort to resolve any variance that exists between the bank account and MnSCU accounting. Monthly reconciliations are being completed.

CLC made the adjusting entry for the consistent cash difference that was identified on February 25, 1999.

Person Responsible: Lori Bates, Assistant Director of Business Services
Projected Completion Date: Implementation Ongoing

Finding 2: The college did not monitor the status of its operating relationship with the college foundation.

Central Lakes College has received a commitment from the CLC Foundation President that the by-laws will be changed to reflect the practice that CLC employees on the Foundation Board are non-voting members.

CLC will annually prepare a financial status report to ensure that the amount of scholarship aid exceeds CLC's administrative assistance to the foundation.

CLC has reviewed the process used between CLC and the Foundation regarding the transfer of scholarship funds. Changes will be made to ensure timely transfer of funds to CLC.

Person Responsible: Kari Christiansen, Director of Business Services
Projected Completion Date: June 30, 1999

Finding 3: The college did not evaluate its collateral balance for its local account.

CLC has made arrangements with our local bank to assist us in monitoring and adjusting our collateral balance to ensure sufficient collateral is being pledged to safeguard our bank account. Additional monitoring will occur during peak receipt periods (i.e. beginning of semesters).

Person Responsible: Lori Bates, Assistant Director of Business Services
Projected Completion Date: Completed and Ongoing

Finding 4: Security controls to access college computerized business systems require improvement.

CLC has established a formal procedure to review both user security and user access to network and business systems. The Business Office is now distributing monthly user security reports to supervisors who will report changes to the appropriate CLC or MnSCU staff. Also, quarterly user access reports (to local computer networks) are being distributed to supervisors who will report changes to the CLC Technology Department. The Technology Department is responsible for making these changes on a timely basis. The Business Office had been reviewing employee security reports throughout the time period covered during this audit. This new procedure incorporates all college departments into this review process.

Person Responsible: Clyde Oliver, Business Office
All CLC Supervisors
Scott Streed, Technology Department

Projected Completion Date: Completed

Finding 5: Prior Finding Not Resolved: Central Lakes College did not promptly deposit tuition and customized training receipts with the state treasury, as required by statutory provisions.

CLC has implemented procedures to ensure all financial activity is recorded on a timely basis on the MnSCU accounting system. CLC has made significant improvement in timely entering of deposits on the MnSCU accounting system during FY98 and FY99.

Further, customized training procedures were changed in October 1998 so that all funds were deposited on a daily basis. Customized Training is no longer holding checks to see if a class will be offered.

Person Responsible: Lori Bates, Assistant Director of Business Services
Rebecca Best, Dean of External Studies
Kari Christiansen, Director of Business Services
Kathie Headley, Business Office
Diane Smith, Business Office

Projected Completion Date: Completed

Finding 6: Prior Audit Finding Substantially Resolved: The college did not adequately separate duties over the collection of customized training receipts and the billing of third party funding.

The CLC Business Office has been reviewing customized training course rosters to receipts since October 1998 to provide separation of duties in the customized training department. New procedures have been developed which will provide greater separation of duties in the collection, depositing and recording of customized training receipts (i.e. Business Office will now prepare deposit rather than Customized Training).

CLC has changed the responsibilities of our Accounts Receivable staff in the Business Office to provide separation of duties with our third party billing process. We have also implemented a new Student Records System that will further enhance our separation of duties controls.

Person Responsible: Lori Bates, Assistant Director of Business Services
Rebecca Best, Dean of External Studies
Kari Christiansen, Director of Business Services

Projected Completion Date: July 1, 1999

Finding 7: Central Lakes College did not adequately safeguard tuition and fee revenues.

CLC is restrictively endorsing all checks when they are received.

CLC has purchased locked bank deposit bags and is researching options for providing more security for the courier service.

Person Responsible: Lori Bates, Assistant Director of Business Services

Projected Completion Date: Completed except for researching potential courier changes: June 30, 1999

Finding 8: The college did not monitor tuition administrative adjustments.

CLC has had a procedure where one staff person was responsible for documenting and explaining the administrative adjustments and another staff person recorded the administrative adjustment. An independent review of all administrative adjustments was implemented in early March 1999.

Person Responsible: Lori Bates, Assistant Director of Business Services

Projected Completion Date: Completed

Finding 9: The college did not adequately separate personnel and payroll functions.

Prior to the audit, the backup for payroll functions was a Human Resource employee. The payroll backup responsibilities have now been changed so that the Human Resource secretary is now the payroll backup. The Human Resource secretary does not have human resource access so there is a clear separation of duties. The Human Resource secretary has already received training as payroll backup.

Human Resource and Payroll staffs have been informed that they will not share user IDs. The payroll backup resolution noted above also resolves the incompatible security profile issue that existed with a Human Resource backup for payroll functions.

Person Responsible: Nancy Paulson, Director of Human Resources

Projected Completion Date: Completed

Finding 10: Central Lakes College did not consistently conduct annual evaluations.

The Director of Human Resources has established a systematic process for notifying supervisors when performance evaluations are due. Although not all performance evaluations are complete, substantial progress has been made in this area since merger. We intend to ensure that performance evaluations are completed for all employees on a timely basis.

Person Responsible: Nancy Paulson, Director of Human Resources
Sally Ihne, President

Projected Completion Date: Implementation Ongoing

Finding 11: Prior Audit Finding Substantially Resolved: The financial aid office has unnecessary access to financial aid checks.

The Business Office is directly receiving all financial aid checks. Copies of the checks are given to Financial Aid, but all original copies are kept in the Business Office in a secured area. The Business Office will continue to disburse student loan checks through our on-line financial aid/accounting system.

Person Responsible: Mike Barnaby, Director of Financial Aid & Admissions
Lori Bates, Assistant Director of Business Services
Sue Caquelin, Financial Aid
Sally Grove, Financial Aid
Kay Mueller, Business Office
Sherilyn Thesing, Business Office

Projected Completion Date: Completed

Finding 12: Central Lakes College did not separate the work-study payroll input and disbursing functions.

CLC changed the procedure so that work-study payroll checks are received in the Business Office. The Payroll employee responsible for entering work-study payroll reviews the roster of checks and notifies the Business Office when the checks can be released.

Person Responsible: KaAnn Drone, Payroll
Carla Loss, Business Office

Projected Completion Date: Completed

Finding 13: The Staples campus bookstore lacked proper separation of duties.

The Bookstore Manager is now reviewing and signing all invoices. The Bookstore and Business Office are now balancing each other's cash drawers on a daily basis. The Business Office is also reviewing the cash register tapes, voids and returns to the balanced cash drawer. Brainerd Bookstore staff will complete the Staples Bookstore year-end inventory, and the Staples Bookstore employee will assist with the Brainerd year-end inventory.

All Staples Campus voids and returns will have a written explanation and will be attached to the daily till tape that the Staples Cashier reviews.

Person Responsible: Lori Bates, Assistant Director of Business Services
Kathie Headley, Business Office
Kay Mueller, Business Office
Nancy Schmidt, Staples Bookstore
Dawn Swarthout, Bookstore Manager

Projected Completion Date: June 30, 1999

Finding 14: Central Lakes College did not complete a physical inventory of equipment.

As of Tuesday, May 4th, a physical inventory has been completed for all CLC departments. All that is left is to finish entering the changes on the MnSCU Fixed Asset system.

Person Responsible: Debbie Sterriker, Business Office
Projected Completion Date: May 30, 1999

Finding 15: Central Lakes College did not provide adequate security for the business office and did not adequately safeguard newly purchased supplies and equipment in the bookstore and maintenance room.

Effective March 12, 1999 the Student Services area has been secured with locks.

Also in March, the Bookstore receiving area has been secured so the receiving area is locked at all times.

Effective March 22, 1999 all college packages are received through the Bookstore on both campuses. The Bookstore stores all packages in a locked area until employees pick up their packages. The maintenance area of the college does not receive any shipments.

Person Responsible: Kari Christiansen, Director of Business Services
Dawn Swarthout, Bookstore Manager

Projected Completion Date: Completed