Hennepin Technical College

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

July 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-37

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SUMMARY

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Public Release Date: July 16, 1999 No. 99-37

Background

Hennepin Technical College is part of the Minnesota State Colleges and Universities System (MnSCU). MnSCU began operations on July 1, 1995, when the state universities, community colleges, and technical colleges throughout the state merged under one governance structure. HTC is a two-year college with campuses in Brooklyn Park and Eden Prairie. Dr. Sharon Grossbach serves as president of the college.

Our audit scope covered the period July 1, 1995, through June 30, 1998. The objectives of our audit were to gain an understanding of the internal control structure over the major financial activities of the college and to determine if the college complied with material finance-related legal provisions. The areas covered by our audit were tuition and fees, customized training and fee based programs, employee payroll, administrative expenditures, and food service and bookstore operations. We also reviewed the college's internal controls over compliance with federal student financial aid for fiscal year 1999.

Objectives and Conclusions

We concluded that Hennepin Technical College operated within its available resources and generally operated in compliance with management's authorization and applicable legal requirements for the items tested. Overall, the college designed and implemented internal controls to provide reasonable assurance that its financial activities were properly accounted for and accurately recorded on the accounting systems. However, we make recommendations for improving bank account reconciliations and reducing the number of bank accounts used by the college. The college designed and implemented controls in the business office, bookstore, food service, and financial aid office to help ensure that assets were safeguarded, transactions authorized, and financial activity accurately reported in the accounting systems. However, the college needs to improve its management of third party accounts receivables, segregate duties over tuition and customized training revenue, and improve procedures over transferring customized training receipts from the Plymouth center to the Brooklyn Park campus. In addition, the college needs to prepare financial statements for its bookstore and food service operations and improve the review of bookstore and food service void and refund transactions.

In its audit response, Hennepin Technical College agreed with the audit findings and is taking corrective action to resolve the issues.

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Dr. Sharon Grossbach, President
Hennepin Technical College

We have audited selected areas of Hennepin Technical College for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included tuition and fees, customized training and fee based programs, employee payroll, administrative expenditures, and food service and bookstore operations. 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. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that Hennepin Technical 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, the management of Hennepin Technical College, and the members of the Minnesota State Colleges and Universities Board of Trustees. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 16, 1999.

James R. Nobles	Claudia J. Gudvangen, CPA
Legislative Auditor	Deputy Legislative Auditor

End of Fieldwork: April 6, 1999

Report Signed On: July 13, 1999

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Pat Ryan	Auditor-In-Charge
Steve Johnson, CPA	Auditor
Jill Weber	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Hennepin Technical College and the MnSCU system office at the exit conference held on July 8, 1999:

MnSCU System Office:	
Andrew Boss	Board Trustee
Rosalie Greeman	Associate Vice Chancellor for Financial Reporting
Debbie Winter	Director of Campus Accounting
John Asmussen	Executive Director, Internal Auditing
Janet Knox	Regional Audit Coordinator
Hennepin Technical College:	
Sharon Grossbach	President
Diane Paulson	Vice President of Administrative Services

Chapter 1. Introduction

Hennepin Technical College is a two-year college whose mission is to provide a quality education for employment and a lifetime of learning. The college's main campuses are located in Brooklyn Park and Eden Prairie. In addition, the college has customized training centers in Hopkins and Plymouth. On July 1, 1995, the college became part of the newly formed Minnesota State Colleges and Universities (MnSCU). Minnesota Laws of 1994, Chapter 532, Section 9, Subdivision 1, authorized the transfer of real property, personal property, improvements, and attachments related to technical colleges to the state. Prior to the MnSCU merger, the college operated as part of Intermediate School District No. 287. As explained in Chapter 2, the college and Intermediate School District No. 287 continue to share various services under a joint powers agreement.

The college offers several degrees, certificates, and diplomas. The college also offers customized educational options on each of its campuses. The full-time equivalent student population at the college was 3,200 for the 1997-98 school year. Dr. Sharon K. Grossbach serves as the president of the college.

Table 1-1 provides a summary of the college's sources and uses of funds reported in the General Fund, Special Revenue Funds, and Enterprise Funds for fiscal year 1998.

Table 1-1
Sources and Uses of Funds
Fiscal Year Ended June 30, 1998

	General Fund	Special Revenue Funds	Enterprise Funds
Beginning Fund Balance	$ 7,128,965	$ 119,321	$ 993,009
State Appropriation	20,298,413	0	0
Revenues:			
Tuition and Fees	6,743,037	107,895	0
Customized Training	1,479,863		
State Grants	2,000	0	0
Federal Grants	0	2,336,831	0
Sale of Goods	379,773	0	1,913,819
Other	1,359,403	549,336	0
Subtotal Revenues	$ 9,964,076	$2,994,062	$1,913,819
Total Resources	$37,391,454	$3,113,383	$2,906,828
Expenditures:			
Employee Payroll	$18,573,291	$ 906,434	$ 538,808
Purchased Services	4,561,263	358,161	98,856
Supplies	3,320,277	83,540	1,212,117
Equipment	1,908,418	85,469	0
Improvements	651,196	0	63,021
Financial Aid	0	1,553,437	0
Other	194,133	102,680	14
Total Expenditures	$29,208,578	$3,089,721	$1,912,816
Ending Fund Balance	$ 8,182,876	$ 23,662	$ 994,012

Note 1: Table 1-1 is prepared on the budgetary basis of accounting. This basis does not include long-term assets and liabilities. Examples of financial activity not included in the table are tuition receivables not collected as of the close of books and compensated absence liabilities. The college's June 30, 1998, compensated absence liability was estimated to be about $2,239,492.

Note 2: The college indicated that approximately $5.1 million of the June 30, 1998, fund balance is reserved for projects that focus on upgrading instructional equipment and increase access to technology and future obligations, such as severance payments to retiring faculty, tuition shortfalls, and customized training.

Source: MnSCU General Ledger Accounting System as of February 8, 1999.

Chapter 2. Financial Management

Chapter Conclusions

Hennepin Technical College operated within its available resources and in compliance with legal requirements and management's authorization. Generally, the college designed and implemented internal controls to provide reasonable assurance that the college recorded its financial activities on the MnSCU and MAPS accounting systems in a timely manner. However, the college's local bank accounts were not reconciled on a timely basis and two accounts were not active or earning interest.

Hennepin Technical College operated under the direction of its president, Dr. Sharon Grossbach, during the audit period. The college also employs a vice president of administrative services, one financial aid director, one accounting director, and one personnel director. The accounts payable and payroll/personal functions are centralized at the Brooklyn Park campus. Each campus collects tuition and operates its own bookstore and food service operations.

Prior to the college's merger with MnSCU, Hennepin Technical College operated as part of Independent School District No. 287 (ISD No. 287). After merging with the MnSCU system on July 1, 1995, the college continued to share various services with the school district under a joint powers agreement. The agreement became effective on July 1, 1995, and continues until June 30, 2005. The agreement allows the parties to amend the terms of the contract no later then February 1 of the year in which changes are proposed. Under the terms of the agreement, ISD No. 287 performed human resources, payroll, and accounting functions for the college. In July 1996, Hennepin Technical College began performing its own human resource activities, and in 1997 the college took over its payroll processing and accounting activities. Currently, ISD No. 287 performs purchasing functions for the college.

Hennepin Technical College records local bank account activity, as well as state treasury financial activity, on the MnSCU accounting system. MnSCU accounting posts summary information for state treasury accounts to the state's accounting system, Minnesota Accounting and Procurement System (MAPS), through a system interface. MAPS generates state treasury warrants from the system interface. In addition, the college uses the State Colleges and Universities Personnel/Payroll System (SCUPPS) to manage payroll and personnel functions for its employees. The information from SCUPPS also interfaces with the state's payroll/personnel system, the State Employee Management System (SEMA4).

Budgetary Controls

The MnSCU system office provides funding to Hennepin Technical College based upon an allocation formula. The college receives one allocation to fund its operations. The college uses this allocation amount, as well as its tuition revenue estimates, to determine the basis for its annual budget. In order to budget expenditures, the college reviews its prior year expenditures and its anticipated needs for the upcoming year. At the end of fiscal year 1998, Hennepin Technical College had a General Fund carryover balance of about $8 million.

The college uses the MnSCU accounting system to monitor its revenues and expenditures throughout the year. The vice president of administration sets up the college budget on MnSCU accounting in individual cost centers. To monitor individual programs and cost center budgets, the vice president and program support staff review monthly budgetary summary reports and detail transaction reports. Business office employees initiate any necessary budget modifications or transfers among cost centers.

Audit Objectives and Methodology

Our review of Hennepin Technical College's overall financial management focused on the following questions:

- 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 financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- Did the college design and implement internal controls to provide reasonable assurance that money held in local bank accounts was adequately safeguarded and accurately reported in the accounting records?

To answer these questions, we interviewed college staff to gain an understanding of the MnSCU accounting system and the extent the college used the system for each of the individual program areas we audited. We reviewed the transactions posted to MnSCU accounting to determine if the college properly recorded revenue and expenditure transactions for both state treasury and local bank account activities. Finally, we reviewed the reconciliations between MnSCU and MAPS transactions and between MnSCU accounting and the monthly bank statements.

Conclusions

Hennepin Technical College operated within its available resources and in compliance with legal requirements and management's authorization. Generally, Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that the college recorded its financial activities on the MnSCU and MAPS accounting systems in a timely manner. However, as explained in Finding 1, the college's local bank accounts were not reconciled on a timely basis and two accounts were not active or earning interest.

Hennepin Technical College

1. Hennepin Technical College can improve controls over its local bank accounts.

At December 31, 1998, Hennepin Technical College had four local checking accounts, two money market accounts, and one Visa credit card account. We noted the following concerns with Hennepin Technical College's management of these accounts:

- Hennepin Technical College did not reconcile its main local checking account to MnSCU accounting on a monthly basis. At the time of our fieldwork, the last complete reconciliation was January 1998.

- Hennepin Technical College maintains a local contingency checking account at its Brooklyn Park campus and Eden Prairie campus, with authorized balances of $5,000 and $3,000, respectively. Each of these contingency-checking accounts was created prior to the MnSCU merger and was used primarily for emergency loans to students. Only the Eden Prairie campus maintained its authorized balance and reconciled monthly. At December 31, 1998, the Brooklyn Park account had a balance of $5,688 and had not been reconciled. Currently, the need for either of these accounts is unnecessary.

- Hennepin Technical College maintained two additional accounts. One was the college's imprest checking account and the other was a Visa account used for credit card charges. Neither account earned interest. The imprest account had a balance at December 31, 1998, of $71,206. The Visa account balance at December 31, 1998, was $40,229. These two accounts were to be merged with the main local account and the accounts closed, but as of the end of our fieldwork, closure had not occurred.

It is important for Hennepin Technical College to reconcile its local checking account activity to MnSCU accounting on a timely basis. Timely reconciliations facilitate the discovery and correction of errors and irregularities. Checking accounts or other accounts that are not being used or no longer serve a useful purpose should be closed.

Recommendations

- *Hennepin Technical College should reconcile its checking accounts on a monthly basis. Unreconciled items should be promptly investigated and resolved.*

- *Hennepin Technical College should close all checking accounts that are not being used.*

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Chapter 3. Tuition and Fees

Chapter Conclusions

Generally, Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, and accurately reported in the accounting records. However, the college needs to improve its monitoring of and accounting for third-party accounts receivable. The college also did not adequately segregate duties over tuition revenues at its Eden Prairie campus or certain customized training receipts at its Hopkins location. In addition, customized training receipts are at risk during transfer through* intercampus *mail. For the items tested, the college complied with applicable finance-related legal provisions and management's authorization.

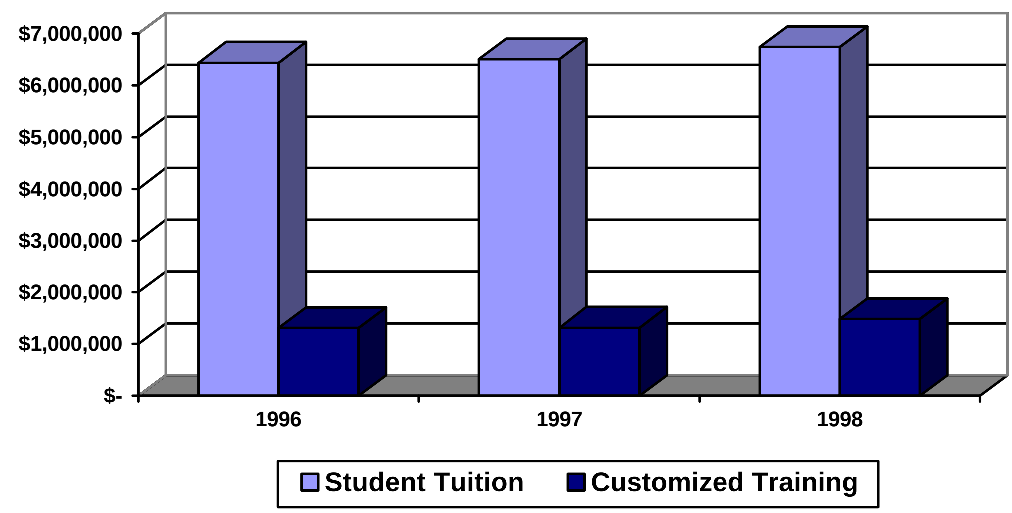
Hennepin Technical College collected tuition and fees each quarter from students enrolled in campus programs, continuing education, and customized training classes. The college used the Collegiate Information System (CIS) to register, bill, and collect tuition. For fiscal year 1998, the resident tuition rate was $42.65 per credit. The college recorded $19.7 million of tuition and fee revenue for the three years ended June 30, 1998.

Hennepin Technical College delivers industry-specific training and educational services through its customized training classes. Customized training is designed to address the local and regional education and training needs of business and industry. Businesses can request classes to meet their specific needs. Individuals can also register for a variety of different course offerings. Customized training classes accounted for $4.1 million of the tuition revenues during the audit period.

Figure 3-1 shows tuition and fee revenue by source.

Hennepin Technical College

Figure 3-1
Tuition and Fee Revenue by Source



Source: MnSCU accounting system.

Audit Objectives and Methodology

Our review of Hennepin Technical College's tuition and fees focused on the following question:

- Did the college design and implement internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, and accurately reported in the accounting records?

- Did the college comply with applicable legal provisions and management's authorization?

To meet these objectives, we interviewed college employees to gain an understanding of the internal controls over billing, collecting, and recording of tuition and fee 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 for customized training classes. We also tested revenue transactions to determine the timeliness of deposits and recording of revenue on MnSCU accounting and the statewide accounting system (MAPS).

Conclusions

Hennepin Technical College generally designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fees were collected, adequately safeguarded, and accurately reported in the accounting records. However, as explained in Finding 2, the college needs to improve its monitoring and accounting for third-party accounts receivable. The college also did not adequately segregate duties over tuition revenues at its Eden Prairie campus or certain customized training receipts at its Hopkins center, as discussed in Finding 3. In addition, customized training receipts are at risk during transfer through intercampus mail. For the items tested, the college complied with applicable finance-related legal provisions and management's authorization.

2. Hennepin Technical College did not adequately monitor third-party accounts receivable for student tuition and customized programs.

Hennepin Technical College did not adequately manage its third-party accounts receivable. Third-party accounts are those in which another entity has agreed to pay a student's tuition. The college did not periodically balance the accounts receivable detail to cash received and billing information. Without use of this control, the integrity of the third-party accounts receivable detail is questionable. As a consequence, Hennepin Technical College could not accurately determine the number and amount of outstanding accounts receivable at June 30, 1998. We estimated third-party accounts receivable of approximately $38,263 and $19,280 for student and customized training tuition, respectively, as of June 30, 1998. The exact amount of third-party accounts receivable is uncertain because of the integrity issues identified above.

In addition, Hennepin Technical College did not adequately pursue collection of third-party accounts receivable. It could improve procedures for pursuing older account balances. For example, third-party customized training had about 10 accounts outstanding over 175 days as of June 30, 1998. In addition, there were about 20 student tuition accounts outstanding over 400 days. The college did not use a collection agency or the state revenue recapture program to help collect these outstanding third-party accounts receivable.

Recommendations

- *Hennepin Technical College should reconcile payments collected to the related accounts receivable records.*

- *Hennepin Technical College should monitor and actively pursue the collection of outstanding receivables.*

3. Hennepin Technical College did not have an adequate separation of duties over certain tuition and customized training receipts.

The Eden Prairie campus business office and the Hopkins customized training business office did not adequately separate duties over receipts. At the Eden Prairie campus business office, one staff member routinely collected tuition and performed the daily reconciliation of tuition with the related account receivable activity on MnSCU. In addition, this individual had the ability to create negative receipts on MnSCU accounting. The duties of processing tuition receipts and performing daily reconciliations of tuition collections should be segregated.

Hennepin Technical College

Customized training faculty members collected open enrollment customized training tuition at the commencement of the initial class period. Open enrollment customized training classes are held at the college campuses as well as many other locations throughout the metro area. Not all students register prior to attending the open enrollment customized training classes. Consequently, these students are not recorded on a class roster. Students attending a class, but not recorded on the roster register, pay the faculty member at the beginning of the class. As a result of this process, there is no independent verification of tuition collections.

The college should separate the responsibilities of recordkeeping and tuition collection. This separation of duties increases the assurance that collected cash is properly recorded in MnSCU accounting and deposited in the state treasury.

Recommendation

- *The college should separate registration and tuition collection responsibilities for customized training receipts, or consider an independent verification of customized tuition collections.*

4. Hennepin Technical College should improve processing procedures for certain customized training receipts.

The Plymouth Center offers customized training seminars and directs customers to remit registration information and payments to the Plymouth business office. The Plymouth business office processes the registration information and then sends the receipts to the Brooklyn Park campus using intercampus mail. The receipts are estimated to be about $2,000 per week. The Brooklyn Park campus processes the receipts and deposits the funds. Transferring these receipts from the Plymouth business office to the Brooklyn Park campus using intercampus mail may create an unwarranted risk of loss or theft to the college.

Recommendation

- *The college should have the Plymouth Center instruct its customers to remit registration information and payments directly to the Brooklyn Park business office.*

Chapter 4. Employee Payroll

Chapter Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported employee payroll expenditures in the accounting records. In addition, for the items tested, the college complied with applicable legal provisions and bargaining unit agreements.

Employee payroll represents the college's largest expense. Hennepin Technical College expended approximately $58.6 million in payroll related costs during the audit period. The college employs about 850 staff consisting of 646 full-time and part time faculty, and 204 classified and unclassified staff.

The college's employees belong to various compensation plans that include:

- American Federation of State, County, and Municipal Employees (AFSCME)
- Minnesota Association of Professional Employees (MAPE)
- Middle Management Association (MMA)
- Excluded Administrators Plan
- Commissioner's Plan
- United Technical College Educators Plan (UTCE)

MnSCU and UTCE reached a final contract agreement in May of 1997. Under this agreement, Hennepin Technical College adjusted its faculty salaries previously covered under the school district contract to the final wages negotiated with UTCE. The adjustments were retroactive to July 1, 1995.

Hennepin Technical College maintains its human resource and payroll functions primarily at the Brooklyn Park campus. The payroll section processes biweekly payroll transactions on the state's payroll system (SEMA4). The payroll system interfaces with the State College and Universities Payroll and Personnel Systems (SCUPPS), a system that provides employment history, pay rates, and bargaining contract details for all college employees. The human resources section enters all personnel changes and new employee records onto SCUPPS.

Audit Objectives and Methodology

Our review of Hennepin Technical College's payroll expenditures focused on the following questions:

Hennepin Technical College

- Did the college design and implement internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records?

- Did the college comply with applicable legal provisions and bargaining unit agreements?

To answer these questions, we made inquiries of the college's staff to gain an understanding of the payroll and personnel process. We tested a sample of payroll transactions to ensure that there was proper documentation for those transactions. We performed analytical procedures. We reviewed compensation amounts paid to employees and ensured that they agreed with amounts recorded on SCUPPS. We also reviewed large severance payouts to determine if the payments appeared reasonable and were accurately calculated.

Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that it accurately reported employee payroll expenditures in the accounting records. In addition, for the items tested, the college complied with applicable legal provisions and bargaining unit agreements.

Chapter 5. Administrative Expenditures

Chapter Conclusions

We concluded that Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately recorded in the accounting records, and that fixed assets were adequately safeguarded from theft or loss. In addition, for the items tested, the college complied with applicable legal provisions and management authorizations.

Hennepin Technical College's administrative expenditures included payments for purchased services, supplies, equipment, utilities, and building improvements. Administrative expenditures totaled $24,822,768 for the three years ended June 30, 1998. Various departments within the college initiate a purchase through an on-line requisition form using the MnSCU accounting system. An employee of Independent School District 287 processes the requisitions. The school district performs this part of the purchasing function under the terms of a joint powers agreement with the college. This employee is responsible for ensuring that the purchase request has the required documentation such as bids, and that the request follows the college's purchasing guidelines. When the items are received, the department that ordered the goods compares the purchase order to the packing slip. If the documents match, the department signs the packing slip and sends it to the business office. The accounts payable section at the Brooklyn Park campus matches the invoice against the approved requisition form, purchase order, and the packing slip, and makes the payment. Payments are processed on MnSCU accounting.

Audit Objectives and Methodology

Our review of Hennepin Technical College's administrative expenditures focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately recorded in the accounting records, and that fixed assets were adequately safeguarded from theft or loss?

- Did the college comply with applicable legal provisions and management authorizations?

To address these questions, we interviewed Hennepin Technical College employees to gain an understanding of the purchasing and payment process. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded the expenditures in the MnSCU accounting system. We also reviewed a sample of expenditures to determine if Hennepin Technical College complied with applicable legal provisions. Finally, we reviewed the college's process to record and control fixed assets.

Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that administrative expenditures were properly authorized and accurately recorded in the accounting records, and that fixed assets were adequately safeguarded from theft or loss. In addition, for the items tested, the college complied with applicable legal provisions and management authorizations.

Chapter 6. Enterprise Fund Revenues and Expenses

Chapter Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that bookstore and food service revenues were complete, promptly deposited, safeguarded, and accurately reported in the accounting records. Also, bookstore and food service expenses were properly authorized, supported, and accurately recorded in the accounting records. Bookstore inventory was also adequately controlled. However, we found the college did not prepare financial statements for its bookstore and food service operations or adequately document and independently review its void and refund transactions.

Hennepin Technical College operates bookstores and food service facilities at its Brooklyn Park and Eden Prairie campuses. The bookstores sell books, supplies, and apparel. The food services offer breakfast, lunch, and dinner foods. The food service is staffed by college employees, as well as students enrolled in the college's culinary arts program.

Each bookstore accounts for sales through a point-of-sale computer program. The system is directly linked to the bookstore's cash registers. The system allows the bookstore to track sales and inventory levels.

Table 6-1 summarizes the bookstore's financial activities for fiscal year 1998.

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

Revenue:	
Sale of books	$ 989,163
Sale of supplies	92,183
Sale of apparel	3,529
Other revenue	3,434
Total Revenue	$1,088,309
Expenses:	
Purchase of books	$ 806,148
Bookstore salaries	126,205
Purchase of supplies	131,626
Purchase of apparel	3,642
Other purchases and operating expenses	32,850
Total Expenses	$1,100,471

Note: This financial information is incomplete and does not permit net income to be measured. Missing information includes cost of goods sold, rent, utilities, and depreciation.

Source: MnSCU General Ledger Summary Balances Report as of February 23,1999.

Table 6-2 summarize the food services financial activities for fiscal year 1998.

Table 6-2
Summary of Food Service Revenues and Expenses
Fiscal Year 1998

Revenue:	
Sale of food	$653,200
Vending commissions	19,180
Other revenue	2,402
Total Revenue	$674,782
Expenses:	
Food service salaries	$412,675
Purchase of food	264,595
Other purchases and operating expenses	26,225
Total Expenses	$703,495

Note: This financial information is incomplete and does not permit net income to be measured. Missing information includes cost of goods sold, rent, utilities, and depreciation.

Source: MnSCU General Ledger Summary Balances Report as of February 23,1999.

Audit Objectives and Methodology

Our review of Hennepin Technical College's bookstore and food service operations focused on the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that bookstore and food service revenues were complete, safeguarded, promptly deposited, and accurately reported in the accounting records?
- Did Hennepin Technical College design and implement internal controls to provide reasonable assurance that bookstore and food service expenditures were reasonable, properly authorized, and accurately reported in the accounting records?

To address these questions, we interviewed college staff to gain an understanding of the bookstore and food service operations and to determine how revenues and expenditures were processed. We reviewed the controls over the revenue and expense processes and inventories. We sampled bookstore and food service revenues generated by daily sales activity. We also performed detailed tests of bookstore and food service expenditures.

Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that bookstore and food service revenues were complete, promptly deposited, safeguarded, and accurately reported in the accounting records. Also, bookstore and food service expenditures were reasonable, properly authorized and supported, and accurately recorded in the accounting records. Bookstore inventory was also adequately controlled. However, as explained in Finding 5, the college did not prepare financial statements for its bookstore or food service operations. In addition, as noted in Finding 6, the college did not adequately document and independently review its void and refund transactions.

Hennepin Technical College

5. Hennepin Technical College has not prepared financial statements for its bookstores or food service operations.

The college has not monitored the status of its enterprise activities through the preparation of accrual basis financial statements. In addition, the college does not allocate certain indirect costs or overhead, including rent, utilities, and other costs to bookstore and food service operations.

As indicated in Tables 6-1 and 6-2, the available financial information presented in MnSCU accounting is incomplete and net income or profits cannot be accurately calculated. For example, the college has not determined what cost of goods sold are or recognized General Fund costs, such as space or utilities provided to the bookstore and food service operations.

The bookstore and food service activities are enterprise activities accounted for in the enterprise fund. As such, financial statements should measure net income in accordance with the accrual basis of accounting.

Recommendations

- *Hennepin Technical College should prepare accrual basis financial statements for its bookstore and food service operations.*
- *Hennepin Technical College should work with the MnSCU system office to determine a reasonable amount, if any, that the bookstore and food service should reimburse to the General Fund for space rental, maintenance expense, and other support costs.*

6. Hennepin Technical College did not adequately document and review support for void and refund transactions.

The college's bookstores and food service operations did not document the reasons and support for voided transactions or for transactions involving the return of merchandise to the bookstore. We found that there was no documentation prepared to justify the reason for the void and that there was no independent review of the transactions. We also found that refund transactions were not being adequately documented and independently reviewed.

Voided and refund transactions are sensitive because they represent decreases to cash collections. The lack of documentation and independent review of these transactions increases the risk that amounts recorded as refunds or voids were inaccurate or inappropriate. Someone independent of the transactions should review and approve all voided and refund transactions.

Recommendation

- *Voided and refund transactions should be documented and independently reviewed to ensure the appropriateness of the transactions.*
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Chapter 7. Student Financial Aid

Chapter Conclusions

Hennepin Technical College designed and implemented internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system, accurately reported, and administered in accordance with applicable guidelines or requirements. For the items tested, the college complied with finance-related legal provisions.

Hennepin Technical College participates in a variety of student financial aid programs. The federal programs reviewed during the audit period included the following:

- *Federal Pell Grant Program (CFDA #84.063)* –The Pell Grant is generally considered the first source of assistance to eligible students. Eligibility for the grant is based on the cost of education, the family's ability to pay, and the student's enrollment level. Pell Grant funding is not limited to funds available at an institution. The maximum Pell Grant for the 1998-99 award year was $3,000.

- *Federal Family Education Loan (FFEL) Program (CFDA #84.032)* –This program includes both Subsidized and Unsubsidized Stafford Loans. The student borrower applies for the loan from a private lender. The school certifies the promissory note for qualifying students. The federal government guarantees the loan in case of default or cancellation. The federal government pays the interest to the private lender on Subsidized Stafford Loans while the student is in school and during certain deferment periods. For Unsubsidized Stafford Loans, the interest accrues from the date of origination and is the responsibility of the borrower. The maximum FFEL program amount for a given student is determined by the borrower's grade level and the amount previously borrowed.

- *Federal Supplemental Educational Opportunity (FSEOG) Grant (CFDA # 84.007) –* FSEOG grants are awarded to exceptionally needy undergraduate students. The college determines a student's need based on the cost of attendance budget and the expected family contribution. The U.S. Department of Education subsidizes 75 percent of the grants and the college funds the remaining 25 percent.

- *Federal Work-Study (FWS) Program (CFDA # 84.003)* –FWS provides part-time employment for students who continue to have financial need after receiving all other available grants. The U.S. Department of Education subsidizes 75 percent of the program costs and the college funds the remaining 25 percent.

Audit Objectives and Methodology

Our review of Hennepin Technical College's student financial aid for fiscal year 1999 activity focused on answering the following questions:

- Did the college design and implement internal controls to provide reasonable assurance that student financial aid transactions were properly recorded in the accounting system, accurately reported to the federal government, and administered in accordance with applicable program guidelines or requirements?

- Did the college comply, in all material respects, with the significant finance-related legal provisions concerning student financial aid?

To meet these objectives, we interviewed college employees. We reviewed and tested controls over compliance with federal and state legal requirements. We also reviewed and tested controls over compliance for federal cash management and reporting. In addition, we relied upon the internal control work performed on student financial aid packaging, awarding, and disbursing functions for fiscal year 1998 for which we issued a separate report (Report Number 99-19).

Conclusions

Hennepin Technical College designed and implemented internal controls to ensure compliance with related state and federal financial aid program requirements. The college complied with federal regulations over federal cash management and reporting for the items tested. The college also complied with state guidelines for state grants and state work-study for all items tested.

Status of Prior Audit Issues
As of April 6, 1999

Most Recent Audits

Legislative Audit Report 99-19, issued in March 1999, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1998. We audit federal financial aid programs on an annual basis as part of the Single Audit of the state's federal expenditures. This report contained one finding relating to Hennepin Technical College regarding unreconciled bank accounts. This finding also appears as Finding 1 in this report.

Other Audit History

Legislative Audit Report 98-16, issued in March 1998, covered federal financial aid programs administered by the State of Minnesota in fiscal year 1997. This report did not include any findings related specifically to Hennepin Technical College

Legislative Audit Report 97-29, issued in June 1997, covered federal financial aid programs administered by the State of Minnesota in fiscal years 1996. This report did not include any findings related specifically to Hennepin Technical 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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Hennepin Technical College

July 12, 1999

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings of our recent audit. We want to extend our appreciation to your staff, especially Tom Donahue, Pat Ryan, Steve Johnson, and Jill Weber. Their approach to reviewing our institution was very professional and their insights will help us to improve our operations. Our response to each finding is based on that goal of improvement.

Finding 1: HTC can improve controls over its local bank accounts.

We concur with this finding. As of this date, our main account is not completely reconciled. We are within $30,000 of reconciliation. Extra staff time has been assigned to complete the reconciliation by August 31, 1999. We have participated in the MnSCU training workshops on reconciliation and are confident that we will be able to reconcile monthly in the future. The two contingency accounts, the VISA accounts and the local imprest account have all been reconciled and will be closed by the end of this month.

Finding 2: HTC did not adequately monitor third-party accounts receivables for student tuition and customized programs.

We agree with this finding. Since our audit, the following steps have been taken: 1) communications, written or verbal, have been made with each overdue account resulting in collections of $ 9,978, 2) accounts still unpaid and within limits were turned over to MCE for collection, 3) began process to identify accounts to be written off in

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9200 Flying Cloud Drive
Eden Prairie, MN 55347-2600
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Customized Training Services
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accordance with Department of Finance, and 4) met to develop and document a multi-step process to insure future receivables are collected within a reasonable timeframe. Expected completion is September 30, 1999.

Finding 3: HTC did not have an adequate separation of duties over certain tuition and customized training receipts.

We understand this finding and are in partial agreement. The assigned duties and security access of the Eden Prairie Business Office Manager will be reviewed and minimized as possible. There are only two fulltime and one part-time staff in this office. It may not be cost beneficial to add another staff for complete segregation of duties. All daily reconciliations will be sent to the Director of Accounting for verification and oversight. It is our policy now to not allow Customized Training instructors to accept cash. Occasionally, though, students will register and pay with a check at the training site. While this is discouraged, it inevitably happens. We are considering ways to minimize and eliminate the risk of these transactions. One way is to publish notice to students that they should receive a receipt from the college within a week and give them the tuition office number to call if they do not. Another is to have CT coordinators periodically verify class rosters with actual attendees. A process will be developed and documented by August 30, 1999.

Finding 4: HTC should improve processing procedures for certain customized training receipts.

We concur with this finding. All CT customers will be asked to remit registration information and payments to either the Brooklyn Park or Eden Prairie tuition office. This statement will be added to all invoices by August 1, 1999 and to future publications as appropriate.

Finding 5: HTC has not prepared financial statements for its bookstores or food service operations.

We agree with the need for more complete financial statements for our bookstore and food service operations and will develop appropriate reports by October 30, 1999. HTC still manages both auxiliary operations. All staff are our employees. Historically and currently, there have been no charges for indirect support such as space and utilities. We are willing to work with MnSCU staff to form a system policy to determine if charges are appropriate and, if so, at what level.

Finding 6: HTC did not adequately document and review support for void and refund transactions.

We concur with this finding. In February 1999, a fulltime bookstore manager was hired. This position will review all refunds and voids in the bookstores. The account clerk senior assigned to Food Services will review all refunds and voids in Food Service. A standard form for voids and refunds will be provided to both campuses by August 15th.

HTC's administrative services have undergone two major changes since July 1, 1995. The first was the movement to MnSCU and the state processes and systems. During that first year, Intermediate District 287 staff through a joint powers agreement provided accounting, payroll and human resources. In FY1997, the human resources function was transferred to the college and in FY1998, the college hired staff and assumed the accounting and payroll functions. These changes have presented many challenges; most we were able to control. The audit has helped to identify some that still need attention and improvement.

If you have any questions, please contact me.

Sincerely,

Sharon Grossbach

Dr. Sharon K. Grossbach
President