Laurentian Community and Technical College District

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

July 1999

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-39

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SUMMARY

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Laurentian Community and Technical College District

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

Public Release Date: July 23, 1999 No. 99-39

Background

Laurentian Community and Technical College District (Laurentian) is comprised of Mesabi Range Community and Technical College in Virginia and Eveleth and Vermilion Community College in Ely. Laurentian was formed on July 1, 1996. Laurentian serves approximately 3,600 students on the three campuses.

Our audit scope included a review of college financial management, tuition and fees, payroll, bookstore and food service operations, and other operating expenditures for the period July 1, 1995, through June 30, 1998. We also reviewed the college's internal controls over compliance with federal and state student financial aid programs for fiscal year 1999.

Conclusions

Laurentian Community and Technical College District 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. However, the college did not always promptly deposit receipts, did not monitor the status of its operating relationship with the college foundations and daycare center, and needs to improve its security controls over college computerized business systems.

Laurentian Community and Technical College District also had internal control weaknesses relating to some of its enterprise activities. The college did not adequately document void transactions and also did not promptly pay bookstore invoices. Additionally, the college did not prepare income statements for the bookstores.

In its response, Laurentian Community and Technical College District agreed with our report findings and is taking action to implement the recommendations.

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Members of the Minnesota State Colleges and Universities Board of Trustees

Ms. Janet Gullickson, President
Laurentian Community and Technical College District

We have audited Laurentian Community and Technical College District for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included a review of college financial management, tuition and fees, payroll, bookstore and food service operations, and other operating expenditures. We also reviewed the college's internal controls over compliance with federal and state student financial aid programs 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 Laurentian Community and Technical College District complied with the provisions of laws, regulations, contracts, and grants significant to the audit. The management of Laurentian Community and Technical College District 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 Laurentian Community and Technical College District. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 23, 1999.

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

End of Fieldwork: May 21, 1999

Report Signed On: July 19, 1999

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Tony Toscano	Auditor-In-Charge
Charlie Gill	Senior Auditor
Neal Dawson	Auditor
Mike Willis	Auditor

Exit Conference

We discussed the findings and recommendations with the following representatives of Laurentian Community and Technical College District and the MnSCU system office at the exit conference held on July 7, 1999:

MnSCU System Office:

Rosalie Greeman	Associate Vice Chancellor
John Asmussen	Executive Director of Internal Auditing
Deb Winter	Director of Campus Accounting
Kim McLaughlin	Northeast Regional Audit Coordinator

Laurentian Community and Technical College District:

Janet Gullickson	Interim President
Tony Bartovich	Vice President of Finance and Operations

Other Attendees:

Christine Fritsche	MnSCU Board Member
Joe Sertich	President, Itasca Community College

Chapter 1. Introduction

Laurentian Community and Technical College District (Laurentian) is comprised of Mesabi Range Community and Technical College with campuses in Virginia and Eveleth and Vermilion Community College in Ely. Laurentian was formed on July 1, 1996. Laurentian serves approximately 3600 students on the three campuses. John Harris served as president of Laurentian from August 1996 until his retirement on June 23, 1999. Janet Gullickson was appointed interim president effective June 24, 1999.

The financial activity for fiscal year 1998 for Laurentian Community and Technical College District is shown in Table 1-1. 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 food service.

Laurentian Community and Technical College District is affiliated with the Mesabi Range Foundation, the Vermilion Community College Foundation, and Laurentian Education Ventures Inc., each of which are separate non-profit organizations. Each foundation has its own board of directors, articles of incorporation, and bylaws. The foundations maintain their own financial records and accounts that were audited by a CPA firm. The foundations received administrative support from the college. In return, the foundations provided student scholarships and learning opportunities that benefited the educational mission of the college. As explained in Chapter 2, Finding 2, the college needs to improve some aspects of its relationships with the foundations.

Table 1-1
Laurentian Community and Technical College District
Fiscal Year 1998 Financial Activity (1)

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund
Beginning Balance	$ 1,495,893	$ 110,542	$2,458,056	$ 557
Revenue:				
State Appropriation	8,254,724			
Tuition and Fees	4,806,318	(806)	64,166	
Rent & Sales	38,471	13,564	803,484	
Room & Board			773,301	
Student Financial Aid		1,882,905		
Federal Grants		377,993	28,764	
State Grants	115,159			
Private Grants				78,500
Transfers In	6,184	49,766		
Other	396,251	1,426	98,517	2,795
Total Revenue	$13,617,107	$2,324,848	$1,768,232	$81,295
Expenditures:				
Salaries and Fringe	$9,485,876	$799,010	$209,465	
Consultant/Contract Services	766,479	28,220	114,403	
Purchased Services	1,001,149	17,129	46,732	
Supplies	1,127,380	41,874	13,415	
Equipment	524,426	9,728		
Supplies for Resale	16,238		771,289	
Student Financial Aid		1,370,670	2,100	950
Utilities	346,847		60,610	
Transfers Out	40,772	65,075	11,842	824
Other	856,480	82,586	371,212	
Total Expenditures	$14,165,647	$2,414,292	$1,601,068	$ 1,774
Fund Balance as of June 30, 1998	$ 947,353	$ 21,098	$2,625,220 (2)	$80,078

Note (1): 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 of the close of books and compensated absence liabilities. The college's June 30, 1998, compensated balance is estimated to be $965,752. Enterprise activities do not include all operating costs such as rent, utilities, or depreciation.

Note (2): The Enterprise Fund balance includes equipment from the Ely campus dorms and food service, as well as required reserves related to the dorms.

Source: MnSCU accounting.

Chapter 2. Financial Management

Chapter Conclusions

Laurentian Community and Technical College District operated within its available resources and had an effective process to monitor its revenue and expenditure budgets. The college designed and implemented controls 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 did not always promptly deposit receipts.***
- ***The college did not update contracts or monitor the status of its operating relationship with the college's foundations or daycare center.***
- ***Security controls to access college computerized business systems require improvement.***

The Minnesota State College and University (MnSCU) system 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 all state universities and colleges, including the Laurentian Community and Technical College District, based upon an allocation formula.

The Minnesota Accounting and Procurement 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 with MAPS to generate warrants from the state treasury. Campuses also administer certain activities, such as the bookstore and student financial aid, in local bank accounts. MnSCU requires that colleges record all local activities on MnSCU accounting so that it provides a complete and comprehensive record of all college finances.

Audit Objectives and Methodology

Our review of Laurentian's overall financial management focused on the following objectives:

- Were the college's financial activities properly recorded on the MnSCU and MAPS accounting systems?
- Did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college operate within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college have an appropriate operating 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

Generally,

- Laurentian Community and Technical College properly recorded its financial activities on the MnSCU and MAPS accounting systems.
- The college complied with applicable legal provisions regarding local bank accounts.
- The college operated within its available resources and in compliance with applicable legal provisions and management's authorization.
- The college had an appropriate operating relationship with related organizations.

However, as noted in Findings 1-3, the college needs to address issues relating to its internal control structure.

1. Laurentian Community and Technical College District did not always promptly deposit receipts.

The college did not promptly deposit some receipts. During our testing of receipts, we noted that tuition, bookstore, food service and financial aid receipts were not always deposited promptly. At the Vermilion campus, we found 5 of 15 tuition, 3 of 8 bookstore, and 3 of 6 food service sample items that were not promptly deposited. The delays ranged from one to four days. Additionally, we found one bookstore deposit and four instances in which work-study reimbursements at the Virginia campus ranging from $5,000 to $8,000 were not deposited for two to six days. Minn. Stat. Section 16A.275 requires agencies to deposit in the state treasury daily receipts totaling $250 or more. Undeposited receipts increase the risk of funds being misplaced or stolen. Also, untimely deposits result in a loss of interest income to the college.

Recommendation

- *The college should deposit its receipts timely in accordance with statutory requirements.*

2. The college did not monitor the status of its operating relationship with the college's foundations or the daycare center.

Laurentian did not have contracts in place with its foundations or with the daycare center. It also did not monitor its relationships with these institutions.

As of May 1999, Laurentian had three separate foundations. The Mesabi Range Foundation supported the Mesabi Range Community and Technical College, while the Vermilion Community College Foundation and Laurentian Education Ventures Inc. supported Vermilion Community College. The Mesabi Range and Vermilion Community College Foundations supported the institutions by providing students with scholarships. Laurentian Education

Ventures Inc. did not provide scholarships, but supported Vermilion in more nontraditional ways such as:

- managing the college apartments,
- operating an outdoor learning center that the college rents, and
- purchasing the local airport to support the college aviation program.

MnSCU policy requires that a college formalize its relationships with foundations with written contracts. The policy also requires that the college ensure it receives at least as much from the foundation as it provides in administrative support. The college did not have contracts in place with the foundations. The college also did not monitor the relationships with the foundations to ensure that it received at least as much as it provided in administrative support. Laurentian provided administrative support by assigning employees to do bookkeeping and payment processing. Monitoring the relationship with Laurentian Education Ventures Inc. is especially important since the benefit to the college may be difficult to quantify.

The college allows the local YMCA to provide daycare services on the Virginia campus without benefit of a contract or assessment of the relationship. In 1990 the college contracted with the YMCA to provide childcare to a changing student population. The college provided the YMCA with rent-free space, utilities, and janitorial services. The college also provided some equipment for the daycare center. The YMCA gave Laurentian students first priority for daycare openings, and allowed faculty and the community-at-large to fill remaining vacancies. Originally, the YMCA agreed to set its rates to correspond to what students received for childcare assistance under job training programs.

Although the original contract with the YMCA expired in May 1991 and has not been renewed or updated, the daycare continues to receive free rent, utilities, and janitorial services. College personnel indicated that the current rates at the daycare center are in line with what is currently charged in the community, which may not be appropriate considering the costs borne by the college. Without a formal negotiation and contract process, the college cannot ensure that the relationship with the daycare provider is still equitable for the college and beneficial to its students.

Recommendations

- *The college should formalize its relationships with the foundations and daycare center by entering into contracts that detail the terms and benefits of the agreements.*

- *The college should annually review the financial relationships with its foundations and daycare center.*

3. The college needs to improve its security controls designed to limit access to college computerized business systems.

Laurentian Community and Technical College District did not adequately control access to its computerized business systems, including MnSCU accounting, the State Colleges and Universities Personnel/Payroll System (SCUPPS), and the College Information System (CIS).

Laurentian Community and Technical College District

The college has primary authority and responsibility to ensure employee access is necessary based upon job responsibilities. Although, the college has a limited number of staff and has attempted to separate key functions within its accounting, payroll, and human resources staff, it has not controlled access to the systems in the same manner. For example, one human resource employee and one Northeast Service Unit (NESU) employee had security profiles in SCUPPS and SEMA4 that allowed them to perform both personnel and payroll functions. Additionally, several employees who no longer are employed by the college, as well as the human resources director from Itasca Community College, had access to the college's system. Similar weaknesses existed within the accounting systems. Failure to control access to computerized business systems increases the risk of errors and irregularities occurring and going undetected.

Recommendation

- *Laurentian Community and Technical College District should ensure that employees only have system access based upon their job responsibilities.*

Chapter 3. Tuition Revenue

Chapter Conclusions

Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded, and accurately reported in the accounting records.

For the items tested, the college complied with applicable finance related legal provisions, except that tuition receipts were not always deposited promptly, as discussed in Chapter 2, Finding 1.

Laurentian collected approximately $13.8 million in tuition and fees during fiscal years 1996 through 1998. The college collected tuition at a resident rate of $40 per quarter credit plus fees for fiscal year 1996, $41.60 for fiscal year 1997, and $42.85 for fiscal year 1998.

Laurentian collected tuition and fees on each of the three campuses at either the business office or bookstore. During fiscal years 1996 through 1998, the college used the Collegiate Information System (CIS) for registration, fee assessment, and accounts receivable functions. The business office staff reconciled each day's tuition receipts to a daily report generated by CIS, prepared the deposit, and entered the receipts into the MnSCU accounting system. Beginning in September 1999, the college is scheduled to begin using the Integrated Student Record System (ISRS).

In addition to its main programs, the college provided non-credit programs consisting of customized training and continuing education, as well as senior citizen programs. Tuition and fees collected totaled approximately $4.4 million in both fiscal year 1996 and 1997, and $4.9 million in fiscal year 1998.

Audit Objectives and Methodology

Our review of Laurentian's tuition and fees focused on the following questions:

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

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

To answer these questions, we interviewed staff to obtain an understanding of the internal controls over billing, collecting, depositing, and recording tuition and fee revenues. We tested a sample of transactions to determine if deposits were made timely and if the college accurately recorded tuition and fee transactions on the MnSCU accounting system. We also reconciled the credits awarded, as recorded on CIS, to the tuition revenue reported on the MnSCU accounting system. Finally, we reviewed how the college monitored and pursued collection of outstanding accounts receivable.

Conclusions

The college generally designed and implemented internal controls to provide reasonable assurance that the appropriate tuition and fee revenues were collected, adequately safeguarded, and accurately reported in the accounting records, in compliance with applicable legal provisions and management's authorizations. However, as discussed in Chapter 2, Finding 1, tuition receipts at the Vermilion campus were not always deposited promptly.

Chapter 4. Payroll

Chapter Conclusions

Generally, Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records. As discussed in Chapter 2, Finding 3, the college did not adequately monitor user access to its personnel and payroll systems. For the items tested, the college complied with material finance-related legal provisions and applicable bargaining unit agreements.

Laurentian incurred over $10 million in payroll expenditures during fiscal year 1998. Payroll is the college's largest expenditure, averaging nearly $400,000 per pay period. College employees belong to the following compensation plans:

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

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. PPS contained pay rate and deduction information necessary to calculate the payments to employees. The MnSCU system office input payroll transactions into PPS from July 1995 through October 1996. Beginning in October 1996, the college's transactions were processed in the state's SEMA4 payroll system and SCUPPS.

During fiscal years 1996 through 1998, Laurentian relied upon various entities for its human resources and payroll processing, including the MnSCU system office, the Arrowhead Regional offices, and MnSCU's Northeast Service Unit (NESU). Since March 1997, Laurentian has maintained its staff appointments and assignments in SCUPPS, but still relied on NESU to collect employee timesheets and enter the payroll into SEMA4.

Audit Objectives and Methodology

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

Laurentian Community and Technical College District

- 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 material finance-related legal provisions and applicable compensation plans?

To answer these objectives, we interviewed staff to obtain a general understanding of the internal control structure over the payroll and personnel processes. We also analyzed payroll transactions to determine unusual trends, reviewed source documents to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusions

Generally, Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that it properly authorized and accurately recorded payroll expenditures in the accounting records. As mentioned in Chapter 2, Finding 3, the college did not adequately monitor user access to its personnel and payroll systems. For the items tested, the college complied with material finance-related legal provisions and applicable compensation plans.

Chapter 5. Student Financial Aid

Chapter Conclusions

Laurentian Community and Technical College District designed and implemented 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 federal regulations. Laurentian complied with applicable federal requirements over receiving federal funds and preparing applicable federal reports. The college designed and implemented internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. However, Laurentian did not always promptly deposit federal work-study reimbursements.

Laurentian Community and Technical College District administers both federal and state student financial aid programs. Laurentian uses a computerized application to package and award financial aid. The financial aid module interfaces with the accounts receivable and student records modules. It electronically receives and stores the student aid report from the federal Department of Education, and also accepts and stores the institutional financial aid application and data from the student. The system enforces compliance with federal and state financial aid program requirements through a series of computerized edits that are activated at the discretion of the institution.

The system provides interactive packaging, awarding, and disbursing of federal and state financial aid. The system automatically verifies financial aid applicant compliance with specific requirements, determines the financial need, and applies awards to students' accounts. The system verifies enrollment before disbursing the awards. The system adjusts the amount of the award if a student's enrollment drops after the initial application of funds.

Laurentian Community and Technical College District participates in a variety of student financial aid programs. The federal programs reviewed during the audit period, identified by their Catalog of Federal Domestic Assistance (CFDA) number, included the following:

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

- *Federal 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 Supplemental Educational Opportunity Grant (FSEOG) (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.

- *Federal Perkins Loan (FPL) Program (CFDA #84.038)* – FPL provides low-interest loans to needy students. The university acts as a lender, using both federal funds and a state match for capital contribution. The MnSCU system office performs loan collection duties including corresponding with students entering repayment status, receiving loan repayments, and pursuing delinquent loans.

The state programs reviewed during the audit period included the following:

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

Laurentian participates in a variety of programs. Table 5-1 summarizes the federal financial aid program expenditures for fiscal year 1998.

Table 5-1
Laurentian Community and Technical College District
Federal Financial Aid Expenditures
Fiscal Year 1998

CFDA Number	Program	Total Expenditures
84.032	Federal Family Education Loan (FFEL)	$2,578,316
84.063	Federal PELL Grant	$1,222,333
84.007	Federal Supplemental Education Opportunity Grant (FSEOG)	$ 128,980
84.033	Federal Work-Study (FWS)	$ 647,751
84.038	Federal Perkins Loan	$ 47,007

Source: Fiscal Year 1998 Federal Operations Report and Application to Participate (FISAP).

Laurentian Community and Technical College District

Audit Objectives and Methodology

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

- Did Laurentian design and implement internal controls to provi de 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 federal regulations?
- Did Laurentian comply with applicable federal requirements over receiving federal funds and preparing applicable federal reports?
- Did Laurentian 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?

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.

Conclusions

Laurentian Community and Technical College District designed and implemented 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 federal regulations. Laurentian complied with applicable federal requirements over receiving federal funds and preparing applicable federal reports. The college designed and implemented internal controls over packaging and awarding federal financial aid to provide reasonable assurance that only eligible students received aid in the appropriate amounts. However, as discussed in Chapter 2, Finding 1, Laurentian did not always promptly deposit federal work-study reimbursements.

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Chapter 6. Bookstore and Food Service Operations

Chapter Conclusions

Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that bookstore and food service 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 and food service expenditures. However, we found that the college did not prepare full accrual income statements, as discussed in Finding 4. In addition, we found that the college did not document and independently review void transactions and did not promptly pay invoices, as discussed in Findings 5 and 6.

Laurentian operated bookstores on each of its three campuses. Revenues and expenses resulting from the bookstore operations for fiscal year 1998, as recorded on the accounting system, totaled approximately $800,000 and $750,000, respectively. The college employed a bookstore manager at each campus. The Vermilion and Virginia campus bookstores also each employed from three to six work-study students. All bookstores sold a variety of products including textbooks, supplies, gifts, apparel, greeting cards, and stamps.

Laurentian also operated a food service on the Vermilion campus. (Laurentian provided food and vending services on the other campuses through contracts.) Recorded revenues and expenses for the food service in fiscal year 1998 were approximately $500,000 and $520,000, respectively. The Vermilion food service employed one food service manger, five full and part-time staff, and one work-study student. The food service operated as a typical cafeteria, serving a variety of foods. The food service sold meal plans to students, many of whom resided in campus dormitories. The meal plan allowed students to buy a predetermined amount of meals during the quarter. For example, a meal plan may have 10 meals per week. Any unused meals are not refunded. Meal plans accounted for the majority of the food service revenue.

Audit Objectives and Methodology

The primary objectives of our audit of the 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 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, food service and business office personnel to gain an understanding of the controls in place over bookstore and food service 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

Laurentian designed and implemented internal controls to provide reasonable assurance that bookstore and food service 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 and food service expenditures. However, we found that the college did not prepare full-accrual income statements, as discussed in Finding 4. In addition, we found that the college did not document and independently review void transactions and did not promptly pay invoices, as discussed in Findings 5 and 6.

4. Laurentian did not prepare income statements to monitor the bookstore and food service activities.

The college did not prepare complete accrual-based income statements to monitor bookstore and food service activities. In addition, the college did not allocate any indirect costs, such as utilities, to the bookstore and food service operations. As auxiliary enterprise operations, the bookstore and food service should account for their operations in a manner similar to private business. Accordingly, an income statement should include an allocation of indirect costs and a measurement of the cost of goods sold. An income statement can also help management determine if the correct markup is being applied or whether the auxiliary enterprise needs to reduce its costs.

Recommendation

- *The college should produce complete income statements for its auxiliary enterprise activities.*

5. Laurentian did not document and independently review bookstore and food service void transactions.

The Vermilion campus had no procedures in place to document and review void transactions for the food service. The food service manager reconciled daily receipts to the cash register tape, and sent the daily sales summary and the deposit to the business office. Business office personnel did not independently review the register tape for void transactions. In addition, we found that the Vermilion bookstore did not fully document the circumstances involving void transactions recorded on the register tape for four of the eight days we tested.

Voids are sensitive transactions because they decrease the amount shown as cash collections for the day. Since the cash register tape supports the amount recorded as received, any changes should be authorized and documented. The lack of documentation and independent review of these transactions subjects these receipts to unnecessary risk.

Recommendation

- *Laurentian should document void transactions. Someone in the business office should independently review void and refund transactions.*

6. Laurentian did not promptly pay its bookstore invoices.

The college's bookstores did not always promptly pay invoices. According to Minn. Stat. Section 16A.124, state agencies must pay vendors within 30 days following the receipt of invoices. In 8 out of 24 sample items, Laurentian did not pay vendors within 30 days following the invoice date. The invoices were paid between 45 and 75 days after the invoice dates. Outstanding invoices increase the possibility that the college may incur unnecessary costs, such as interest and penalties, and portray the state as an unreliable business partner.

Recommendation

- *Laurentian should ensure that it pays all invoices in a timely manner.*

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Chapter 7. Other Administrative Expenditures

Chapter Conclusions

Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that assets were safeguarded, expenditures were for goods and services received, and transactions were accurately reported in the accounting records. Disbursements were made in compliance with applicable legal provisions and management's authorization.

Laurentian Community and Technical College District incurred expenditures for purchased services, supplies, consultant contracts, and utilities totaling $8,475,372 for fiscal years 1996 through 1998. The largest expenditure type was purchased services, which accounted for 35 percent of the total. Supplies, consultant contracts, and utilities accounted for 26 percent, 25 percent, and 14 percent of the total, respectively. To make a purchase, Laurentian required its staff members to complete a requisition form and submit it to one of the business offices. Business office staff reviewed the budget to ensure that sufficient funds were available in the appropriate cost center. The appropriate college dean or designee authorized the requisition. The business office staff used MnSCU guidelines to solicit bids, if required, and selected a vendor to complete the purchase. The ordering department received the merchandise and compared it to the requisition for accuracy. Business office staff matched authorized invoices to the purchase orders and requisitions and forwarded them to the Virginia campus for payment.

Audit Objectives and Methodology

The primary objectives of our review of purchased services, consultant services, supplies, and utilities were as follows:

- Did Laurentian design and implement internal controls to provide reasonable assurance that assets acquired were safeguarded, expenditures were for goods and services actually received, and transactions were accurately recorded in the accounting system?

- Did Laurentian comply with applicable legal provisions governing procurement and disbursement?

To meet these objectives, we interviewed college employees to gain an understanding of the internal controls over the procurement and disbursement processes for purchased services, consultant services, supplies, and utilities. We performed analytical reviews and tested transactions to determine if Laurentian properly procured goods and services, disbursed funds, and recorded expenditures in the accounting system.

Laurentian Community and Technical College District

Conclusions

Laurentian Community and Technical College District designed and implemented internal controls to provide reasonable assurance that expenditures were for goods and services actually received and transactions were accurately reported in the accounting records. However, the college did not use accurate object codes in many of its clearing transactions, which resulted in an overstatement of consultant service expenditures. In addition, an educational service consultant hired by the college provided three months of services before the college approved the contract and received $786 more than the state dollar limit of the contract. This was an isolated error. We did not find weaknesses in the college's overall contracting practices. For the other items tested, the college complied with applicable MnSCU procurement policies and management's authorization.

Status of Prior Audit Issues
As of May 21, 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 Laurentian Community and Technical College District.

Other Audit History

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 Laurentian Community and Technical College District.

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 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.

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LAURENTIAN
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VERMILION COMMUNITY COLLEGE
COMMUNITY & TECHNICAL COLLEGE DISTRICT

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July 14, 1999

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

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit report of the Laurentian Community and Technical College District for the period July 1, 1995, through June 30, 1998. The college staff has reviewed the audit findings and recommendations and we respond in the order that the findings are listed in your report.

Chapter 2 Financial Management

1. **Laurentian Community and Technical College did not always promptly deposit receipts.**

The college agrees with the finding. The importance of the deposit when the $250 threshold is reached has been stressed to all employees. The College needs to review its backup procedures because it appears that in most instances the non-prompt deposits occurred when the primary responsible person was on annual or sick leave. The two instances of late deposit of work-study reimbursements has been eliminated effective July 1, 1999 by the consolidation of the three checking accounts to one checking account for all local funds. Prior to this consolidation, work-study funds were received on the Vermilion Campus and a check was mailed to the Mesabi Range-Virginia for deposit. This will no longer be necessary.

The responsible parties will be Tony Bartovich, CFO, and Tony Altiero, Business Manager. Date problem resolved: Immediately.

2. **The college did not monitor the status of its operating relationship with the college's foundations and daycare center.**

The college agrees with the finding. The college is formalizing its contracts that will detail the relationships with the foundations that specify the terms and benefits of the agreements. The college will do an annual evaluation of the relationship to ensure that the college receives at least as much from the foundation as it provides in administrative support. The college believes that it does receive benefits from the foundations in excess of services provided, but will provide an annual evaluation with documentation.
The college is in the process of renegotiating its agreement with the YMCA for Childcare services. The new agreement will provide that the children of the college's students will receive priority placement. The agreement will allow the college audits and inspections and will provide for an annual review.

The college will develop a diary system to ensure that all contracts are monitored and renewed as needed.

The responsible parties will be Tony Bartovich, CFO, and Ross Petersen, Director of College Services. Date problem will be resolved. By no later than August 15, 1999.

3. **The college needs to improve its security controls designed to limit access to college computerized business systems.**

The college believed it had been controlling security. The CFO approved all Accounting function access and the HR director approved all Human Resource function access. The college believes that the failure to control the proper access to employees was caused by a lack of understanding of the system. The college has requested an updated listing of all employees and their function accesses and a description of each of the functions. The CFO and Human Resources Director will evaluate and try to ensure that all employees have access only to functions that are appropriate for their job duties and allow for the proper separation of duties. The college will monitor security on a monthly basis and will delete employees that are no longer employed at the college immediately.

The responsible parties will be Tony Bartovich, CFO, and Patti Stahl, Human Resources Director. Date the problem will be resolved. By no later than August 1, 1999.

Chapter 6. Bookstore and Food Service Operations

4. **Laurentian did not prepare income statements to monitor bookstore and food service activities.**

The college agrees with this finding. MNSCU accounting does not provide the ability to generate monthly income statements. The college does input all of the information necessary for the determination of the cost of goods sold, however, because there is not a way to generate an income statement, the measurement is not shown. The College has been advised that it needs to wait for System Office input prior to the application of any indirect costs to the enterprise operations. The college will attempt to develop queries within the replicated database to allow for the generation of income statements and balance sheets on a monthly basis. The college believes that these should be available as regular MNSCU reports and should not require developing queries out of the replicated database.

The responsible parties will be Tony Bartovich, CFO, and Tony Altiero, Business Manager. Date the problem will be resolved. September 3, 1999 (FY9 Financial Reports closing date).

5. **Laurentian did not document and independently review bookstore and food service void transactions.**

The college did have an established procedure for handling voids in the bookstore, but not in the food service. The bookstore procedure required a supervisor or another employee other than the employee that recorded the void transaction to review and initial. However, the person reviewing the transaction did not provide an explanation of the void for review of the business office. This will be done for each void. The college food service will now follow the same policy as the bookstore with the addition of the explanation for the void and adequate documentation will be provided for business office review.

The responsible parties will be Tony Bartovich, CFO, Tony Altiero, Business Manager, Diane Horvat, Bookstore Coordinator, VCC, and Theresa Jamnick, Food Service Coordinator, VCC. Date the problem will be resolved. Immediately.

6. **Laurentian did not promptly pay its bookstore invoices.**

The college believes that a majority of the invoices are paid promptly. The college has not had the opportunity to examine the invoices that were tested to determine if there were reasons for delays. Book companies do at times allow a 60-day payment period. They want to be able to ship at times that are convenient to them with the knowledge that the college will not be in a position to pay all bills until after they earn revenues for the semester book sales. There are other instances where the vendor may partial ship and the college, with the vendor's approval, will wait until complete shipment prior to paying all invoices for the same order. The college has stressed with bookstore and business office employees the necessity to pay invoices on a timely basis. Staff has been advised to properly document occasions when the vendor has given the college the right to delay payment for the vendor's convenience.

The responsible parties will be Tony Bartovich, CFO, Diane Horvat, VCC Bookstore Coordinator, Virginia Skarich, Mesabi Range-Virginia Bookstore Coordinator, and Marcia Landborg, Mesabi Range-Eveleth Bookstore Coordinator.
Date the problem will be resolved. Immediately.

We wish to thank the Legislative Auditor's staff for their review and recommendations. If you have any follow-up questions or concerns, please contact Tony Bartovich at 218-744-7522.

Sincerely,

Dr. Jan L. Gullickson /tc

Dr. Jan Gullickson
Interim President