



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

North Hennepin Community College
July 1, 2000, through June 30, 2002



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

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- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

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Dr. James H. McCormick, Chancellor
Minnesota State Colleges and Universities

Members of the Minnesota State Colleges and Universities Board of Trustees

Ms. Ann Wynia, President
North Hennepin Community College

We have audited the North Hennepin Community College for the period July 1, 2000, through June 30, 2002. Our audit scope included financial management, tuition and fees, employee and student payroll, enterprise activities, and other administrative expenditures. Our scope did not include federal financial aid, which was audited as part of the Minnesota State Colleges and Universities' annual financial statement audit. We highlight the audit objectives and conclusions in the individual chapters of this report.

We conducted our audit in accordance with *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 North Hennepin Community College complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The 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 North Hennepin Community 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 August 7, 2003.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 14, 2003

Report Signed On: August 1, 2003

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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
Thomas Donahue, CPA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor
Jaqueline Wessel	Intern

Exit Conference

The following staff from the Office of the Chancellor and North Hennepin Community College participated in the exit conference held on July 23, 2003:

Office of the Chancellor:

Laura King	Vice Chancellor/Chief Financial Officer
Tim Stoddard	Associate Vice Chancellor, Financial Reporting
Margaret Jenniges	Director of Financial Reporting
John Asmussen	Executive Director, Internal Auditing
Tracey Gran	Audit Coordinator, Internal Auditing

North Hennepin Community College:

Ann Wynia	President
Dawn Reimer	Chief Financial Officer
Dawn Belko	Business Manager

Report Summary

The college made significant improvements in its financial management practices since our last audit report issued in March 2001. North Hennepin Community College has resolved or substantially resolved all of the 12 prior audit findings. The college's internal controls provided reasonable assurance that the college safeguarded assets, properly recorded financial activity in the accounting records, and complied with finance-related legal provisions and management's authorizations. The college also operated within available financial resources. However, we did note areas where the college can improve its operations.

Key Findings and Recommendations:

- The college did not resolve certain errors in the accounting system in a timely manner. We recommended that the college correct the known accounting system errors and, when necessary, work with the Office of the Chancellor to resolve other reconciling issues. (Finding 1, page 7)
- The college did not separate the payroll data entry and review functions. We recommended that an independent individual review the payroll register. (Finding 3, page 14)
- The college did not consistently encumber funds prior to making an obligation. We recommended that the college comply with board procedure by encumbering funds prior to making an obligation. (Finding 4, page 18)

<p>North Hennepin Community College is part of the Minnesota State Colleges and Universities (MnSCU) system. This financial-related audit report focused on financial management, tuition and fees, employee and student payroll, enterprise activities, and other administrative expenditures for the period from July 1, 2000, through June 30, 2002. The college's response is included in the report.</p>

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Chapter 1. Introduction

North Hennepin Community College, located in Brooklyn Park, Minnesota, is one of 34 colleges and universities included in the Minnesota State Colleges and Universities (MnSCU) system. The college is accredited by the Higher Learning Commission: a Commission of the North Central Association of Colleges and Schools. Ms. Ann Wynia has served as college president since December 1, 1997.

North Hennepin Community College offers lower division and preprofessional courses, which may be transferred with full credit towards a bachelor degree in over 80 upper division majors. Work in these areas leads to the degree of Associate in Arts, Associate in Science, or Associate in Applied Science at North Hennepin Community College and to the bachelor's degree at a four-year college or university. In school year 2001-2002, North Hennepin Community College had 3,604 full-time equivalent students enrolled in credit classes. Enrollment increased by eight percent over the previous year.

The college, through its Center for Training and Development, specializes in continuing education professional development and information technology training. In addition, the center offers both open enrollment classes and customized training services for business organizations.

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Chapter 2. Financial Management

Chapter Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems, and that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. However, the college did not resolve certain errors in the accounting system in a timely manner.

For the items tested, the college complied with the applicable legal provisions regarding its local bank account. In addition, the college maintained an appropriate operating relationship with its foundation.

North Hennepin Community College received much of its funding for operations from General Fund appropriations. The MnSCU Office of the Chancellor allocates appropriated funds to North Hennepin Community College and all colleges and universities based on an allocation formula. In addition, North Hennepin Community College, like other campuses, retains the tuition and other receipts it collects to arrive at its total authorized spending level. In fiscal year 2002, tuition and fees made up 47 percent of the college's General Fund spending level.

Once North Hennepin Community College determines its authorized spending level, it allocates spending budgets to the various administrative areas and academic departments. The college established individual cost centers for each department or office to monitor its budget status. College management also monitored projected versus actual student enrollment to ensure that sufficient tuition was received to support the spending budget. The college builds a reserve balance into its budget formula. As of June 30, 2002, North Hennepin Community College had a five percent budget reserve, or approximately \$1,034, 000. MnSCU policy 5.10 specifies the college or university's General Fund reserve should be five to seven percent of the previous year's General Fund operating revenues. Due to the governor's unallotment of state appropriations, the college estimated its fiscal year 2003 General Fund reserve would drop to approximately two percent. Colleges within MnSCU will be significantly affected by the state's budget deficit over the next biennium. The Office of the Chancellor has authorized the colleges to use its reserve, if needed, to address the budgeted shortfall.

North Hennepin Community College used the MnSCU accounting system to record its financial activity and to initiate transactions. MnSCU accounting interfaces with the statewide accounting system, the Minnesota Accounting and Procurement System (MAPS), to generate warrants from the state treasury. The MnSCU Office of the Chancellor also requires that all campuses use the MnSCU accounting system to account for money maintained outside of the state treasury. The college administered certain funds, including student financial aid and enterprise activities, in

North Hennepin Community College

one local bank account. This checking account also served as the state depository for transfer of funds into the state treasury.

The college made significant improvements in its financial management practices since our last audit. It has resolved or substantially resolved all 12 of our prior audit findings. In addition, the college established sufficient monitoring controls to compensate for employees having incompatible security access to the accounting systems.

North Hennepin Community College is affiliated with the North Hennepin Community College Foundation, a separate non-profit organization. The foundation has its own directors, articles of incorporation, and bylaws. The foundation maintained its own financial records and accounts, which were audited annually by an independent CPA firm. The college maintains a formal agreement with the foundation to provide staffing and other administrative support in exchange for student scholarships and grants that benefit the educational mission of the college. According to the fiscal year 2002 audited financial statements, the foundation contributed \$135,885 in student scholarships and grants.

Audit Objectives and Methodology

Our review of North Hennepin Community College's financial management focused on the following questions:

- Did the college's internal controls provide reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems?
- For the items tested, did the college comply with applicable legal provisions regarding local bank accounts?
- Did the college's internal controls provide reasonable assurance that it operated within available financial resources in compliance with applicable legal provisions and management's authorization?
- Did the college's internal controls provide reasonable assurance that it had an appropriate operating relationship with its foundation?

To answer these questions, we interviewed college staff to gain an understanding of the college's use of the MnSCU accounting system for programs in our audit scope. We also gained an understanding of the management controls, including budgeting, budget monitoring, and reconciliations of local bank account activities. We analyzed the financial activity in the MnSCU accounting system to identify unusual trends. We reviewed local bank activity to determine compliance with material finance-related legal provisions, such as the adequacy of collateral. We also reviewed the college's relationship with its foundation. Finally, we reviewed security privileges to determine whether the college had adequately restricted access to computerized business systems.

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Conclusion

North Hennepin Community College's internal controls provided reasonable assurance that its financial activities were properly recorded on the MnSCU and MAPS accounting systems, and that it operated within available financial resources in compliance with applicable legal provisions and management's authorization. However, as discussed in Finding 1, the college did not resolve certain errors in the accounting system in a timely manner. For the items tested, the college complied with the applicable legal provisions regarding its local bank account. In addition, the college maintained an appropriate operating relationship with its foundation.

1. The college did not resolve certain errors in the accounting system in a timely manner.

The North Hennepin Community College did not resolve \$250,144 in errors in the investments recorded in the MnSCU accounting system. Of the total errors, \$231,645 related to a Government National Mortgage Association investment that the college's previous business manager had purchased with excess bookstore funds. The current accounting staff was not aware that the payments received from this investment included both principal and interest. Rather than reducing the bookstore investment balance by the principal portion of the payment, the college recorded the entire amount as interest income. The remaining errors occurred because the college did not reconcile the fiscal year 2003 investment balances per the MnSCU accounting system to the investments per the bank.

As of March 2003, the college had not updated the MnSCU accounting system for three reconciling items, totaling \$140,238, identified during the bank reconciliation process. Each of these reconciling items appeared on the bank reconciliation worksheet for at least six months. All three reconciling items resulted when the college closed several bank accounts and transferred the cash from the old accounts to the main checking account. In addition to moving the cash between bank accounts, the college needed to make the corresponding adjustments in the MnSCU accounting system.

We also found that in March 2003, the college attempted to reconcile the MnSCU accounting clearing appropriation to the cash balance in the MAPS clearing appropriation. However, the college could not identify the reason for a \$2,870 difference between the payroll clearing cash in MnSCU accounting and the cash in MAPS. According to a memo the college received from the Office of the Chancellor, both the cash and payroll clearing cash balances in the MnSCU accounting clearing appropriation should reconcile to the cash balance in MAPS. The college identified the reconciling items for the cash balance but is still working with the Office of the Chancellor to identify the reason for the payroll clearing cash difference.

Finally, the college did not resolve balances in the MnSCU accounting system appropriations that are no longer used. The repair and betterments appropriation had a negative cash balance of \$18,037, and the HEAPR appropriation had a negative cash balance of \$4,210. Neither of these appropriations had activity during fiscal years 2002 and 2003. Negative cash balances occur when the college disburses more funds in an appropriation than it receives. The college needs to work with the Office of the Chancellor to resolve these balances. We also found the college's Federal Financial Aid appropriation had balances in unusual asset accounts, including \$820

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Account Receivable, \$19,354 Other Receivable, and \$1,768 Due From Other Fund. The college could not explain the detail behind these balances.

Recommendation

- *The college should correct the known errors in the MnSCU accounting system and, when necessary, work with the Office of the Chancellor.*

Chapter 3. Tuition and Fees

Chapter Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees. However, we noted that certain college employees received tuition waivers for noncredit open enrollment classes.

North Hennepin Community College offers both undergraduate credit and continuing education classes. The college collected approximately \$12 million in credit and noncredit tuition and fees during fiscal year 2002. The college used the MnSCU accounting system's accounts receivable module to register and bill students and record tuition collections. The accounts receivable module accumulates student charges from a variety of sources. When students pay their bills at the Accounting and Fees Office, the cashier enters the payments into the MnSCU accounting system. The system automatically applied the money to the outstanding student balances in a specified priority order.

Table 3-1 shows the colleges per credit tuition rates for resident and nonresident students during the audit period.

Table 3-1
Tuition Rates Per Credit

<u>Fiscal Year</u>	<u>Resident Rate</u>	<u>Nonresident Rate</u>
2001	\$74.65	\$138.18
2002	83.60	154.75

Source: MnSCU system board policies as of August 2000 and 2001.

Except for students who were to collect financial aid and third party funding, North Hennepin Community College required students to pay tuition and fees charges by Friday of the registration week. The college dropped students who had not paid by the deadline and placed holds on students' accounts if the students had not paid the entire bill by the end of the semester. The college pursued past due accounts receivable by periodically mailing bills to students. The college then referred all unpaid accounts to the Minnesota Collection Enterprise, the state's centralized collection function. The Collection Enterprise pursues collection of the outstanding balance until the student pays off the balance or it determines the account is not collectible.

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In addition to credit-based revenue, the college collected approximately \$1 million in revenue for open enrollment classes and customer training services for business during fiscal year 2002. The college determined tuition rates or established contracts for customized training classes on an individual basis. The college offered continuing education courses to the public and entered into contracts to develop training courses to meet the educational needs of specific businesses. The college began using the Customized Training/Noncredit Instruction module of the MnSCU accounting system in June 2001.

Audit Objectives and Methodology

Our review of North Hennepin Community College's tuition and fee revenues, including customized training and open enrollment classes, focused on the following questions:

- Did the college's internal controls provide reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with the significant finance-related legal provisions concerning tuition and fees?

To answer these questions, we interviewed college employees to gain an understanding of the controls over tuition and fees. We performed analytical tests to identify unusual trends. We reviewed the board policies and MnSCU accounting records to determine if the college charged students appropriate tuition and fee rates and whether the college properly recorded receipts in MnSCU accounting. We looked at student and employee tuition waivers to determine if the college complied with its waiver policy and the applicable bargaining agreements. Finally, we reviewed the college's procedures for monitoring and collecting outstanding accounts receivable balances.

Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that revenue collections were safeguarded, accurately reported in the accounting records, and in compliance with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning tuition and fees. However, as discussed in Finding 2, we noted that certain college employees received tuition waivers for noncredit open enrollment classes.

2. The Center for Training and Development either fully or partially waived tuition for employees' taking open enrollment classes.

The college's Center for Training and Development waived all noncredit course charges for its employees and waived half of the charges for all other college employees. There currently is no provision within the bargaining agreements or MnSCU policies authorizing this type of tuition waiver for employees. The center offers various noncredit courses through its open enrollment

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program. During fiscal year 2002, the center waived \$4,725 of class charges for college employees. The bargaining agreements currently provide that MnSCU employees may receive tuition waivers for credit courses but it does not address noncredit courses. Without specific language in the bargaining agreements, the center did not have authority to waive college employees' noncredit course tuition.

Recommendation

- *The college should comply with the tuition waiver provisions in the bargaining agreements.*

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Chapter 4. Employee and Student Payroll

Chapter Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that the college accurately reported its employee and student payroll expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization. However, the college did not separate the payroll data entry and review functions. For the items tested, the college complied with the significant finance-related legal provisions concerning payroll.

Employee and student payroll represents the college's largest expenditure. In fiscal year 2002, North Hennepin Community College expended approximately \$17.5 million in payroll-related costs. College employees belonged to the following bargaining units and compensation plans:

- Minnesota State College Faculty
- American Federation of State, County, and Municipal Employees
- Minnesota Association of Professional Employees
- Middle Management Association
- Personnel Plan for MnSCU Administrators
- Commissioner's Plan

The college used the State Employee Management System (SEMA4) and the State College and Universities Personnel and Payroll System (SCUPPS) to process payroll information. The payroll personnel collected employee timesheets for update of SEMA4 mass time entry. SEMA4 interfaced with SCUPPS, which provided employment history, pay rates, and bargaining contract details for all college employees. The human resources personnel entered all appointment and salary changes and new employee records onto SCUPPS.

The college used the MnSCU accounting system's student payroll module for all of its work-study and student workers. The Financial Aid Office set up student appointments, and the payroll personnel collected student timesheets and entered the timesheet hours into the MnSCU accounting system. After MnSCU accounting processed the student payroll, the Accounting and Fees Office printed student payroll checks. In order to pick up their checks, students were required to show their picture identification. The college paid student payroll from its local bank account.

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Audit Objectives and Methodology

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

- Did the college's internal controls provide reasonable assurance that it accurately recorded its employee and student payroll expenditures in the accounting records, and that it complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with significant finance-related legal provisions concerning payroll?

To answer these questions, we made inquiries of the college's staff to gain an understanding of the internal control structure over the payroll and personnel processes. We analyzed employee and student payroll expenditures to determine proper recording of payroll transactions, reviewed source documentation to determine proper authorization, and tested salaries to ensure proper payment pursuant to contract provisions. We also reviewed severance and retroactive payments to determine if the payments complied with the contract provisions. Finally, we reviewed the computer system security clearances for payroll and human resources personnel.

Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that the college accurately reported its employee and student payroll expenditures in the accounting records and complied with applicable legal provisions and management's authorization. However, as discussed in Finding 3 below, the college did not separate the payroll data entry and review functions. For the items tested, the college complied with the significant finance-related legal provisions governing payroll.

3. The college did not separate the payroll data entry and review functions.

Currently, the payroll clerk performs the payroll data entry and review functions, which are incompatible functions. The payroll clerk who collected employee timesheets and processed biweekly payroll transactions on the state's payroll system also reviewed the payroll register report. A review of the payroll register, produced by the state's payroll system, verifies proper input of timesheet hours, pay rates, and special transactions. When one person performs these incompatible functions, the risk of errors or irregularities increases.

Recommendation

- *The college should have an independent person review the payroll register.*

Chapter 5. Enterprise Fund Activities

Chapter Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that the college accurately recorded its Enterprise Fund activities in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning Enterprise Fund activities.

North Hennepin Community College operated three auxiliary activities in the Enterprise Fund during fiscal years 2001 through 2002. The activities included the bookstore, food service, and parking operations. Table 5-1 shows the fiscal year 2002 receipts and disbursements of these three auxiliary operations.

Table 5-1
Auxiliary Operations Activity
Fiscal Year 2002

	<u>Revenue</u>	<u>Expenses</u>
Bookstore	\$2,184,962	\$2,072,412
Parking	324,442	186,228
Food service	15,131	5,289

Source: MnSCU Accounting on a budgetary basis of accounting.

North Hennepin Community College contracted with a vendor to provide food service to students and faculty. The cafeteria provided breakfast, lunch, and snacks, and the vendor paid the college a percentage of its net sales based on its contract with the college.

The college also operated a parking facility within the Enterprise Fund. The college charged parking fees of \$45 per semester for full-time staff and \$3 per credit up to a maximum of \$45 per semester for students. The college recently used parking fund money to make improvements to its east parking lot.

The bookstore is the largest activity in the Enterprise Fund. The bookstore offers new and used textbooks, reference books, school and art supplies, apparel, and gifts. The bookstore accepts cash, checks, and credit card charges. It also establishes student charge accounts for students who receive financial assistance from third parties. The bookstore processes sales through three different cash registers. At the end of the day, the cash register receipts are reconciled with the register tape and locked in the safe. The following day, the Accounting and Fees Office deposits

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the receipts and enters the sales information into the MnSCU accounting system. To order books or supplies, the bookstore prepares a purchase order. Upon receipt of the goods, the bookstore then sends the purchase order, vendor's invoice, and a pay order form to the Accounting and Fees Office for payment.

Audit Objectives and Methodology

Our review of North Hennepin Community College's Enterprise Fund's revenue and expenses focused on the following questions:

- Did the college's internal controls provide reasonable assurance that the college accurately recorded its bookstore, food service, and parking revenue collections in the accounting records and complied with applicable legal provisions and management's authorization?
- Did the college's internal control provide reasonable assurance that the college accurately recorded its bookstore disbursement transactions in the accounting records and complied 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 auxiliary operations?

To answer these questions, we interviewed bookstore and accounting staff to determine how they processed receipts and disbursements. We tested a sample of bookstore receipt transactions, including bank deposit documentation and a sample of expense transactions, to determine if the college properly authorized, processed, and recorded the receipts and expenses in the accounting system. We also performed analytical reviews of auxiliary receipt and expense transactions to identify unusual trends. We reviewed available reports showing the financial results of the auxiliary funds and verified the college complied with the MnSCU board policies over auxiliary operations. Finally, we followed up on prior audit findings.

Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that the college accurately recorded its Enterprise Fund revenue and expense transactions in the accounting records and complied with applicable legal provisions and management's authorization. For the items tested, the college complied with the significant finance-related legal provisions concerning the Enterprise Fund's revenues and expenses.

Chapter 6. Other Administrative Expenditures

Chapter Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that the college accurately reported its other administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorizations.

For the items tested, with one exception, the college complied with applicable legal provisions concerning administrative expenditures. We noted that the college did not consistently encumber funds prior to making an obligation.

North Hennepin Community College staff and faculty incur various administrative expenditures to facilitate the educational mission of the college. Our audit of other administrative expenditures focused on the material expenditures outlined in Table 6-1.

Table 6-1
Material Administrative Expenditures
Fiscal Years 2001 and 2002

<u>Description</u>	<u>2001</u>	<u>2002</u>
Purchased Services	\$ 992,496	\$1,484,953
Consultant/Contract Services	1,574,797	1,055,065
Supplies	<u>809,727</u>	<u>978,520</u>
Total	<u>\$3,377,020</u>	<u>\$3,518,538</u>

Source: MnSCU Accounting on a budgetary basis of accounting.

To purchase goods or services, college departments submitted purchase requests to the Accounting and Fees Office for processing. The Accounting and Fees Office verified that funds were available in the appropriate cost centers, encumbered funds, and sent the purchase orders to the vendors. The college's central receiving department received the delivered goods and forwarded them to the requesting departments. The receiving department also notified the Accounting and Fees Office that the college received goods. When the Accounting and Fees Office received the vendor invoices, it matched the invoices to the purchase requisitions, receiving documentation, and purchase orders. Finally, the Accounting and Fees Office processed the vendor payments in the MnSCU accounting system.

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Audit Objectives and Methodology

Our review of North Hennepin Community College's other administrative expenditures focused on the following questions:

- Did the college's internal controls provide reasonable assurance that the college accurately reported its other administrative expenditures in the accounting records and complied with applicable legal provisions and management's authorization?
- For the items tested, did the college comply with the significant finance-related legal provisions concerning other administrative expenditures?

To answer these questions, we interviewed college employees to gain an understanding of the procurement and disbursement processes. We analyzed administrative expenditures to determine proper recording of administrative expenditures and to identify unusual trends. We reviewed a sample of administrative expenditures to determine if the college properly authorized, processed, and recorded the expenditures in the accounting system. Finally, for the same sample of expenditures we verified the college complied with the Minnesota prompt payment statute and MnSCU board policies on purchasing.

Conclusions

North Hennepin Community College's internal controls provided reasonable assurance that it accurately recorded other administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorizations. For the items tested, with one exception, the college complied with applicable legal provisions concerning administrative expenditures. As discussed in Finding 4 below, we noted that the college did not consistently encumber funds prior to making an obligation.

4. The college did not consistently encumber funds prior to making an obligation.

North Hennepin Community College did not encumber funds prior to making an obligation for three out of twenty expenditures tested. Board Procedure 5.14.5, Part 5 states:

Funds must be encumbered prior to making an obligation through an authorized employee certifying that the accounting system shows sufficient allotment or encumbrance balance in the fund, allotment, or appropriation to meet it.

The MnSCU accounting system encumbers funds when the college generates a purchase order. We noted three instances where the invoice date (that is, the date of obligation) was earlier than the purchase order date. The college risks overspending its authority when it does not encumber funds prior to making an obligation.

Recommendation

- *The college should comply with the board procedure by encumbering funds prior to making an obligation.*

**Status of Prior Audit Issues
As of May 14, 2003**

Most Recent Audits

College Audit

Legislative Audit Report 01-16, issued in March 2001, covered the period July 1, 1997, through June 30, 2000. The audit report cited 12 audit findings related specifically to North Hennepin Community College. The college substantially resolved each of those findings.

Other Audit Coverage

The MnSCU Office of Chancellor contracted with Deloitte and Touché, LLP, an independent CPA firm, to audit the MnSCU basic financial statements and to report on its internal controls and compliance for its major federal programs. MnSCU received unqualified opinions for fiscal years 2001 and 2002. As a part of the audit, the firm issued management letters to MnSCU's Board of Trustees commenting on accounting, administrative, and operating matters. The fiscal year 2001 management letter contained 13 comments, and the fiscal year 2002 management letter contained 7 comments. Two Single Audit issues related to North Hennepin Community College were noted. The college indicated that these issues have been resolved.

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. Finance has delegated this responsibility for all Minnesota State Colleges and Universities (MnSCU) audit findings to the MnSCU Office of Internal Auditing. MnSCU's Office of Internal Auditing's 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.

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North Hennepin
Community College

7411 85th Avenue North
Brooklyn Park, MN 55445-2299
Tel: 763-424-0702
TTY: 763-493-0558
www.nhcc.mnscu.edu

July 30, 2003

Mr. James R. Nobles
Legislative Auditor
100 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the legislative audit report for North Hennepin Community College for the period July 1, 2000 through June 30, 2002. Our formal written response to the audit report is included with this cover letter.

We are pleased with the audit process, especially the dialogue that occurs on-site, which encourages us to review our long-standing business practices. I want to thank the on-site team of Laura Peterson, Auditor-In-Charge, Ching-Huei Chen and Jaqueline Wessel, Auditors, and Tom Donahue, Audit Manager, for their professionalism, patience and courtesy during this audit. Also, thank you to Claudia Gudvangen, Deputy Legislative Auditor, for her willingness to consider additional information supplied after the conclusion of the audit.

Our College is committed to quality improvement. The input by outside examiners, such as the Legislative Audit Team, is valuable in helping us prepare for the reaccreditation process.

Please feel free to respond to any of our recommendations and comments should you have any questions.

Sincerely,

/s/ Ann Wynia

Ann Wynia
President

Enclosure

North Hennepin Community College
Response to Legislative Audit Findings
For the period July 1, 2000 through June 30, 2002

Finding #1: The college did not resolve certain errors in the accounting system in a timely manner.

Recommendation: The college should correct the known errors in the MnSCU accounting system and, when necessary, work with the Office of the Chancellor.

College Response: We concur with this finding. The college has been continuing to clean up reconciling items and old account balances. All material entries referred to in the audit report have been made as of June 30, 2003. Two smaller balances are being analyzed and adjustments will be made in fiscal year 2004.

Our goal is to make all adjusting entries for reconciliations and accounts in a timely manner.

Finding #2: The Center for Training and Development either fully or partially waived tuition for employees' taking open enrollment classes.

Recommendation: The college should comply with the tuition waiver provisions in the bargaining agreements.

College Response: We concur with this finding. The college will require all college employees to request employee development funds for classes offered through the Center for Training and Development.

Finding #3: The college did not separate the payroll data entry and review functions.

Recommendation: The college should have an independent person review the payroll register.

College Response: We concur with this finding. The payroll data is now being verified by another person other than the payroll clerk. The second review is performed by another person in the Human Resource department and that person initials the data entry sheet after she verifies that it matches the hours entered.

Finding #4: The college did not consistently encumber funds prior to making an obligation.

Recommendation: The college should comply with the board policy by encumbering funds prior to making an obligation.

College Response: We concur with this finding. We will continue to work on educating our employees regarding proper purchasing procedures and have included an action plan in our fiscal year 2004 Work Plan to address this issue.