Northeast Higher Education District

Itasca Community College

Internal Control and Compliance Audit

Office of Internal Auditing

June 6, 2016

Minnesota
STATE COLLEGES
& UNIVERSITIES

Reference Number 2016-06

Report Classification: Public

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Public Release Date – June 6, 2016

Dear Members of the MnSCU Board of Trustees,
Chancellor Steven J. Rosenstone, and
President William Maki

This report presents the results of our selected scope financial internal control and compliance audit of Northeast Higher Education District - Itasca Community College for fiscal years 2013, 2014, 2015, and 2016 through August 31, 2015. It contains nine findings and related recommendations to assist college management in improving business processes, controls, and accountability.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The results of the audit were discussed with district, college, and system office leadership on May 4, 2016.

We appreciate the excellent cooperation and assistance that we received from district and college employees.

Eric Wion

Eric Wion, CPA, CIA, CISA, CISSP
Interim Executive Director

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The audit was performed by Carolyn Gabel, Kim McLaughlin, Indra Mohabir, and Melissa Primus

Audit Scope

We reviewed internal controls and compliance over the following activities for fiscal years 2013, 2014, 2015 and 2016 through August 31, 2015.

- Receipts: tuition and fees, bookstore, food service, and housing
- Personnel and payroll expenses
- Procurement, disbursement, and equipment inventory
- Employee business expense reimbursements
- Key financial reconciliations
- Grant management

Conclusion

Except for receipts, the college generally had adequate internal controls and complied with policies, procedures, and finance-related legal requirements. The audit report contains nine findings and recommendations to improve controls.

Findings

1. The college did not have adequate controls to ensure some receipts were safeguarded and properly deposited.
2. The college did not adequately restrict some employee's computer system access.
3. The college did not follow its procedures related to student housing receivables.
4. The college did not prepare a multi-year plan for its auxiliary operations.
5. The college did not comply with some purchasing and contract requirements.
6. The college did not adequately manage its asset inventory records.
7. The college did not have a formal grant approval process and did not comply with conflict of interest requirements.
8. The college did not follow some NSF federal grant compensation guidelines.
9. The college did not have adequate supporting documentation for one employee's payroll assignments and it did not apply the proper tax treatment for some benefits provided to some employees.

Section I: Background

Itasca Community College (ICC) is located in Grand Rapids and offers more than 20 programs and majors, including a two-year engineering program, forest management, and nursing. Student enrollment in 2014-15 was 975 full year equivalents. [1] For fiscal year 2015, the college had 219 employees, 152 whom were faculty members and 67 staff or administrators.[2] ICC is part of the Northeast Higher Education District (NHED) that includes four additional colleges: Hibbing, Rainy River, and Vermilion community colleges and Mesabi Range College.

William Maki became president of NHED in July 2015. In addition to the president, other positions provide district-wide leadership, including the chief human resources officer and the vice president of finance and administration. Functional areas or departments are relatively autonomous at each of the five colleges. For example, each college has its own business or finance office that performs a variety of the same accounting and financial duties. Each business office reports to a college provost and not NHED's vice president of finance and administration.

Tuition, fees, and state appropriations are the primary sources of college operation funding. The college's allocation of state appropriations was $4.4 million, and tuition and fees were $5.5 million, fiscal year 2015. During 2015, ICC's non-operating revenue included over $1 million in private grants. The largest expenses in fiscal year 2015 were salaries and benefits totaling $8.8 million followed by purchased services and supplies totaling $1.4 million and $1.3 million respectively. In fiscal year 2015, the college disbursed $2.5 million in federal student financial aid.[3]

The college uses the MnSCU accounting system, one of many modules of the Integrated Student Record System (ISRS), to generate payments from the state treasury and account for money maintained outside of the state treasury in local bank accounts. Local bank accounts are used for student financial aid, student activities, and auxiliary operations.

The college's last internal control and compliance audit was conducted by the Minnesota Office of the Legislative Auditor in 2008.

[1] Extracted from Minnesota State Colleges and Universities Information Technology Services Reporting and Data Services – Enrollment Reporting.
[2] Reported in the 2015 and 2013 Itasca Community College Fact Books.
[3] The system office's finance division provided ICC's fiscal year 2014 financial figures.

Section II: Audit Objectives, Scope, Methodology, and Conclusion

Audit Objectives

The objectives for this audit were to answer the following questions:

- Were internal controls adequate to ensure the college safeguarded receipts and other assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements?
- For the items tested, did the college comply with significant finance-related legal requirements, including state laws, regulations, contracts, and applicable policies and procedures?

Audit Scope

Our audit reviewed the following activities for fiscal years 2013, 2014, 2015, and 2016 through August 31, 2015.

- Receipts: tuition and fees, bookstore, housing, and food service
- Employee business expense reimbursements
- Personnel and payroll expenses
- Purchases, disbursements, and equipment inventory
- Key financial reconciliations
- Grant management

Audit Methodology

We interviewed college and NHED staff and reviewed relevant documentation, including policies, procedures, guidelines, and internal control documentation prepared for financial statement purposes to gain an understanding of the college's internal controls. We considered risks of fraud and errors, and potential noncompliance with finance-related legal requirements. We analyzed accounting and human resources data. We reviewed employee computer system access to identify the transactions staff can initiate, approve, or process to determine whether access was based on need and whether duties were adequately separated. In addition, we selected a sample of transactions and reviewed supporting documentation to test whether controls were effective and transactions complied with laws, regulations, policies, and contract provisions.

Audit Conclusion

Except for receipts, the college generally had adequate internal controls to ensure it safeguarded assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. We identified some control weaknesses as discussed in the following findings and recommendations.

For items tested, the college generally complied with MnSCU policies and finance-related legal provisions. However, as discussed in the following findings and recommendations, some areas of noncompliance were identified.

Section III – Audit Findings and Recommendations

1. The college did not have adequate controls to ensure some receipts were safeguarded and properly deposited.

The college did not have adequate controls to ensure receipts were safeguarded and properly deposited. The college business office collects receipts, such as tuition and fees, directly from students. Other receipts including bookstore, food service, and athletic events are collected elsewhere at the college and delivered to the business office to be deposited and recorded in ISRS. We found the following weaknesses when reviewing receipt controls.

- Someone in the business office independent of the receipt collection process did not review the daily cash reconciliations or effectively review higher risk transactions such as student waivers or backdated drops. Similar deficiencies were noted for the bookstore and food service receipts.
    - One employee reconciled their own cash receipts to ISRS, prepared the daily bank deposit, and performed the monthly bank reconciliation. The college had another employee review the daily cash reconciliation and the monthly bank reconciliation. However, this person is not independent of the process because the person periodically also serves as cashier. A third person performs a high level review of monthly bank reconciliations on a quarterly basis. Strong internal controls includes an independent review of the daily cash reconciliations and an independent preparation of the monthly bank reconciliation. Similar deficiencies were noted for the bookstore receipts.
    - Backdated registration drops and waivers are high risk transactions because they remove or reduce student accounts receivable balances. Backdated registration drops are approved and entered into the system but an independent review is not performed to ensure no irregularities occurred. Student waivers are approved by another employee; however, the business office employee that reviews them is not independent because she also has the ability to enter student waiver transactions in ISRS. A third person performs a quarterly review of waivers; however, the review does not include a reconciliation to ensure only authorized waivers were entered.
    - Food service and bookstore voids and refunds are not reviewed. In addition, the college bookstore did not have supporting documentation for risky transactions for 6 of the 8 days tested.
- Cashiers in the college business office shared the same cash drawers and ISRS accounting system cash sessions. Although a primary cashier typically collected and recorded most receipts, the cashier did not log off the ISRS system or change cash drawers when a backup cashier filled in. Requiring cashiers to log on and off their cash sessions and maintain separate cash drawers provides accountability for transactions and cash shortages. These controls also help protect cashiers if shortages

occur. The college would have difficulty investigating missing cash if it cannot determine who recorded transactions or handled the cash transaction.

- Students mail their housing room deposits to the housing office and the housing director adds the reservation to the student account which generates a charge to the student's account. The duties of collecting housing room deposits and adding the charges to the student account should be separated. We also noted that the receipts from the coin laundry machines were not adequately safeguarded. Coins had been collected from the laundry machines for the previous six months but had not been delivered to the business office. The collected coins were left on the floor of the housing office in an open area. Not depositing receipts timely and not locking receipts in a secure area such as a cabinet or desk increases the risk of theft.

- Unannounced counts of the business office, food service, or bookstore starting cash are not conducted. Cash counts are a basic cash control for ensuring the proper administration of the starting cash and for uncovering irregularities.

- Money bags containing cash and receipts were not always adequately safeguarded in the business office. Money bags were sometimes placed on top of a desk or file cabinet until they were transported to the bank. In addition, the safe is left unlocked during the day an in an area where it is visible. When cash or receipts are stored in easily accessible areas, theft or loss may occur and be difficult to investigate.

- One of two college employees deliver the daily bank deposit to the bank at approximately the same time and with the same college vehicle. This increases the risks to the employee and increases the risk of theft.

Without adequate controls over receipts the college is at increased risk that receipts may be lost or stolen.

Recommendations

- *The college should identify all locations that collect receipts, assess the adequacy of controls, and implement controls to ensure receipts are properly safeguarded, deposited, and processes and controls are documented. Controls for each location should ensure:*
  - *Deposits are complete and reconcile to supporting documentation,*
  - *Receipt reconciliations are completed by an independent person,*
  - *Receipts are deposited timely, and*
  - *Receipts are physically secured while being stored and delivered.*

- *The college should require cashiers to log on and off ISRS cash sessions when appropriate and maintain separate cash drawers.*

- *The college should implement independent reviews of high risk transactions such as student waivers and refunds, price adjustments, or voids for bookstore and food service activity. In addition, the college should ensure it retains sufficient documentation to support higher risk transactions.*

- *The college should request student housing deposits be sent directly to the business office.*

- *The college should periodically conduct independent, unannounced counts of the starting cash for the business office, food service, and bookstore.*

- *The college should consider using an armored car service to make daily bank deposits. If not feasible, the college should consider altering the bank deposit schedule to reduce the risk of loss or harm to employees.*

2. The college did not adequately restrict some employee's computer system access.

The college did not adequately restrict some computer system access. Some employees had access they did not need or did not have access removed timely when they separated employment. Some employees had incompatible access without effective mitigating or detective controls.

Unnecessary Access
Eight employees continued to have access to equipment, procurement and disbursement, food service, and housing functions in ISRS after separation from employment. We noted that two employees had separated their employment from the college approximately 18 months earlier.

Approximately 20 employees were given system access in the purchasing system and three employees to the housing system that was not necessary for their job responsibilities. Employees were assigned rights to a security group to initiate purchase requisitions. However, the assigned security group also allowed the user to force encumbrances when sufficient budget balances did not exist and process unauthorized purchases. In the housing system, three employees were assigned rights to security groups to initiate or change room and board charges for students.

Incompatible Access
Some employees had incompatible system access:

- Two employees had incompatible access related to equipment management functions. The employees had access to authorize a purchase order and update the asset records. In addition, one of the employees could also initiate a payment. The college did not identify the incompatible functions or create mitigating controls.

- One employee had incompatible access related to accounts payable functions. The employee had the ability to initiate payments and adjust cost center budgets, change vendors on payments, initiate a purchase order and make a payment, and cancel checks in the system. The college did not implement mitigating controls.

- One employee had incompatible access related to cashiering, accounts receivable adjustments, and housing adjustments. The college did not identify the incompatible function or create a mitigating control.

Recommendations

- *The college should implement procedures to ensure computer system access is removed or modified timely when an employee changes jobs within the college, goes on an extended leave, or separates from the college.*

- *The college should ensure the annual ISRS access recertification is completed accurately.*

- *The college should evaluate whether incompatible access can be removed. If it is not practical, detective controls should be established and monitored to ensure they are performed, effective, and proper documentation is retained.*

3. The college did not follow its procedures for managing its accounts receivable for housing. In addition, we noted coding errors and control weaknesses related to housing fines and room assignments.

The college did not follow its procedures for managing housing receivables. We noted issues with obtaining signed housing agreements, assessing payment plans and late payment fees, housing evictions, and coding errors and inconsistencies. We also noted control weaknesses related to housing fines and room assignments.

- **Housing agreements:** 8 of the 15 students selected for testing did not sign their housing agreement prior to occupancy. 3 additional students signed their housing agreement but it was not dated. The ICC Housing Handbook states that a housing agreement must be signed prior to entrance into a college residence hall.

- **Payment plan and late payment fees:** 4 students tested were not assessed a $30 late payment fee when they did not pay their accounts receivable balance by the specified date and had not established a payment plan. In addition, 6 students tested were not put on payment plans and not charged a payment plan fee when they did not pay their accounts receivable balance by the specified date. MnSCU policy 5.11 Tuition and Fees indicates that late payment fees and payment plan fees are a mandatory fee. Procedure 5.11.1 Tuition and Fees indicates that colleges shall establish a policy to charge fees for late payment of tuition and fees and payment plans. In addition, the college student handbook states it will assess a $30 late fee if there are unpaid charges on the account and the student has not established a payment plan.

- **Housing receivables:** 10 of 15 students tested owed the college over $18,000 in housing fees 10 weeks after the start of class for the fall 2016 semester. The college's housing agreement indicates that if full payment or satisfactory payment arrangements were not made by the 21st day of the semester, the college reserves the right to evict the student from college housing and deny dining privileges. The

college does not pursue evictions when students do not meet payment deadlines. Failing to invoke eviction rights may limit the effectiveness of managing housing receivables.

- **Coding consistency and errors:** We noted coding errors and inconsistency related to student housing fees and fines. 3 of the 13 fees charged to students where coded with the wrong fee code when they moved into the dorm early. In addition, we noted fines assessed to students for rule infractions were coded with various cost center and object code combinations. There was no monetary impact for the students. However, inaccurate and inconsistent coding limits the usefulness of data analysis.

- **Housing fines and room assignments**: The housing director initiates student fines for housing rule violations. A form is completed and sent to the college dean for approval. Forms are then routed to the business office and fines are placed on the student's account. However, the forms are not pre-numbered so the college is unable to determine if all fines were placed on student accounts. In addition, the housing director is responsible for assigning rooms to students. There is currently no independent review of room occupancy reports for overall accuracy, reasonability, or confirmation of unoccupied rooms. This increases the risk that occupancy errors not be detected in a timely fashion or improprieties related to unoccupied rooms go undetected.

Recommendations

- *The college should ensure it obtains signed housing agreements before students take occupancy of their assigned rooms.*

- *The college should ensure it charges late payment and payment plans fees in accordance with MnSCU Policy 5.11 Tuition and Fees and its related procedure 5.11.1. In addition, the college should ensure it sufficiently documents any waivers of fees.*

- *The college should develop written procedures related to housing evictions, including timeframes and responsibilities.*

- *The college should ensure it consistently and accurately codes housing fees and fines to the student account.*

- *The college should develop procedures to periodically perform an independent review of residence halls occupancy reports to ensure the housing module accurately reflects all residence hall occupants. In addition, it should develop procedures to verify housing fines have been appropriately added to student accounts.*

4. The college did not prepare a multi-year operating plan for its auxiliary enterprises as required.

The college has not prepared multi-year financial plans for its bookstore, housing, or food service operations. MnSCU Procedure 7.3.2 Auxiliary Operations requires institutions to maintain a written multi-year financial plan for its auxiliary services. Multi-year plans are to include mission, goals, objectives, time frames for goals, forecasting of future performance, and plans should be monitored and adjusted as needed.

Recommendation

- *The college should develop and maintain a written multi-year operating plan for its bookstore, food service, and housing operations in accordance with MnSCU procedure 7.3.2 and related guideline.*

5. The college did not comply with some purchasing and contract requirements and incorrectly coded some transactions. In addition, it did not have delegations of authority letters for all employees that requisition or approve purchases.

Our audit noted instances of non-compliance with contract and purchasing requirements and incorrect coding of transactions in the accounting system.

- **Contract Procedures:** The college does not have written procedures for entering into contracts. MnSCU Procedure 5.14.2 Consultant, Professional or Technical Services Contract requires institutions to develop procedures for entering into contracts.

- **Execution of contracts:** We tested 15 disbursements and 3 of those items were for services that required a contract. The college did not properly execute 3 of 3 contracts tested.

    - The college did not execute a $2,000 contract for cleaning services before work began. The contract was executed the day after work began. In addition, it did not execute the contract in the proper order when it signed the contract before the contractor. Minn. Stat. §16C.05 requires institutions to execute contracts prior to the start of work. In addition, general counsel has provided guidance to institutions that it is a best practice to have contractors sign before the institution.

    - The college did not amend or execute a new contract when it substantially changed the scope of a one project to include irrigating the football field and expanded the scope of work for a second project that included repairing the nursing lab floor. Changes to the contract regarding the nursing lab floor were handled via email. General counsel has provided guidance to institutions that amendments or changes to contracts must be in writing and signed by both parties.

- **Encumbrance of funds:** The college did not encumber funds timely for 6 of 15 items tested ranging from $2,000 to $29,000, 3 of which related to contracts. For these items, the college did not encumber funds prior to obligating the college. MnSCU procedure 5.14.2 Consultant, Professional or Technical Services Contracts and procedure 5.14.5 Purchasing requires institutions to encumber funds prior to executing a contract or making an obligation.

- **Object codes:** The college did not use the correct object codes to record 9 of 15 expense items tested. Object codes are used to classify expenditures. Proper use of object codes is important for financial reporting and analysis.

- **Delegation of authority letters:** The college did not prepare delegation of authority letters for all employees who requisition purchases or approve purchases. For items tested, the employees that prepared the requisition and approved the purchase did not have delegation of authority letters on file. Properly approved delegation of authority letters are required to clearly communicate what duties and actions an employee is authorized to perform on behalf of the college.

Recommendations

- *The college should develop written procedures for entering into contracts as required by MnSCU procedure 5.14.2 Consultant, Professional, or Technical Services Contract.*

- *The college should implement procedures to ensure it properly executes contracts.*

- *The college should implement procedures to ensure it encumbers funds prior to making purchasing or contracting obligations.*

- *The college should review its procurement and disbursement procedures and practices and modify as needed to ensure it properly records object codes.*

- *The college should consider whether additional faculty and staff training is required to ensure compliance with contracting, procurement, and disbursement policies and procedures.*

- *Delegations of authority letters should be completed, approved, and retained for employees that requisition purchases and approve purchases or vendor payments.*

6. The college did not properly manage its asset inventory records.

The physical inventory is conducted by someone with responsibility for physical custody and, in some cases, by persons that purchased the equipment. The college conducts physical inventory counts as required. However, to accomplish this, each department is requested to review a list of their equipment and confirm items are in their possession, indicating its

location, or identify items that cannot be located. The purpose of physical inventories is to ensure equipment is accounted for and not lost or stolen. Good internal control practices, especially for smaller more sensitive pieces of equipment such as computers and laptops, would include having physical inventories completed by someone who does not have physical custody of the equipment. Similarly, they should not be completed by someone with purchasing authority.

The college did not adequately manage its inventory records related to asset disposals and physical inventory counts. The college did not update its inventory records timely for disposal of equipment. We tested five items listed in the college's current asset listing and found that two of the items had been disposed but continued to remain on the asset listing. Assets should be removed from current asset lists upon disposal. Without the timely updating of asset records, the college cannot readily determine what assets exist nor their location. We also tested five items where the asset records indicated the college had disposed the items. None of the disposed items had documentation indicating the disposal had been authorized.

Recommendations

- *The college should implement procedures to ensure physical inventories are conducted by employees or others who are not responsible for the custody of the equipment.*

- *The college should implement procedures to ensure equipment disposals are properly authorized and removed from asset records timely.*

7. The college did not have a formal approval process related to vetting and approving grants. In addition, it did not comply with contract requirements or federal conflict of interest requirements.

The college has an informal process for reviewing and approving grants that involve discussions and meetings with the college provost. Currently, there is no system requirement that grant approvals follow a specific process. However, a more formal, documented process demonstrates a grant has been properly vetted and approved. In addition, a formal process would help faculty or staff that are new to the grant process. The vetting and approval process should also include representatives from non-academic areas, such as finance, information technology, human resources, and general counsel to ensure the college can fulfil the grant requirements.

The college did not have a grant agreement reviewed by general counsel or the attorney general's office when it was not prepared on a MnSCU template. Board Policy 5.14 Contracts and Procurements requires that contracts, including grant agreements, not prepared on MnSCU templates be reviewed and approved in advance by general counsel or the attorney general's office.

Finally, the college relies on MnSCU procedure 1C.0.1 Employee Code of Conduct and Ethics for their conflict of interest procedures for federal grants. While procedure 1C.0.1 requires employees to avoid conflicts of interest, the procedure was not designed to meet federal grant requirements. For example, OMB circular A-21 requires that institutions maintain written standards of conduct governing the administration of grants and that it includes disciplinary actions for violations. However, MnSCU procedure 1C.0.1 does not include information related to disciplinary action.

Furthermore, conflict of interest requirements vary depending on the type of federal grant. We reviewed a National Science Foundation (NSF) grant the college received. NSF has requirements in addition to circular A-21. Three of the additional elements include 1) all investigators must provide disclosures before the grant proposal is submitted, 2) investigators must update disclosures at least annually, and 3) the conflict of interest policy needs to designate one or more persons to review the disclosures and determine needed conditions or restrictions. We did not see evidence the college had obtained conflict of interest disclosures for all investigators prior to submitting the grant proposal or that investigators had updated the disclosures annually. In addition, because procedure 1C.0.1 is a system procedure, it does not designate a college employee who reviews the financial disclosures.

Recommendations

- *The college should develop written procedures for its grant application and award process.*
- *The college should ensure it obtains prior approval by general counsel or the attorney general's office if grant agreements are not prepared on MnSCU templates.*
- *The college should develop a written conflict of interest policy for federal grants*
- *The college should ensure it complies with conflict of interest requirements of individual grants.*
- *The college should ensure it retains sufficient documentation to show employee conflict of interest disclosures were prepared and reviewed, as required.*

8. The college did not follow some NSF federal grant compensation guidelines.

The college did not maintain sufficient time and effort reports to support salary costs of one employee charged to multiple grants. The supporting documentation did not clearly differentiate the time spent when working on multiple grants. When multiple awards exist, federal regulations require institutions to demonstrate the distribution of time among the federal awards. Time and effort reports must be prepared for all employees that work on the grant and be signed by someone with firsthand knowledge to certify the work was performed.

The college was not aware of grant provisions requiring it to obtain advance approval from NSF for some compensation-related expenses charged to three grants. We reviewed

compensation expenses charged to the grants for one employee and found the college did not obtain advance approval when it:

- Did not use the employee's normal base rate of pay to calculate payments for grant work. NSF requires institutions to use faculty's base rate of pay to charge work performed on the grant unless the institution receives advance approval.

- Charged payroll expenses to the grant that exceeded the allowable limit while on sabbatical. NSF guidelines indicate that salary support to employees during sabbatical periods is intended to make up any difference that may occur between the employee's sabbatical rate of pay and their base salary rate. In fiscal year 2014, the college charged approximately $16,500 to the grant above the employee base pay during the year of sabbatical. The institution should have obtained approval for this variance.

- Charged payroll expenses to the grant that exceeded two months of compensation. NSF guidelines indicate salary compensation for senior project personnel is normally limited to no more than two months of their regular base salary for all NSF-funded grants. The college charged approximately $15,000 above the two month limit for fiscal year 2015. NSF may authorize a grantee to exceed the limit and will indicate its approval when it provides the grant award notice.

Recommendations

- *The college should have procedures to ensure they comply with federal time and effort requirements including:*

  - *Certifying time and effort reports for all employees that work on federal grants, and*
  - *Verifying time and effort reports are complete and include all time for the reporting period broken out by grant when appropriate.*

- *For work performed under grants, the college should ensure compensation complies with the cost principles of OMB circular A-21 and applicable grantor specific provisions, such as NSF Policies and Procedures. For example, it should*

  - *Obtain advance written approval to use a pay rate different than those in the grantor's guidelines,*
  - *Ensure the total annual compensation does not exceed limitations set by the granting agency, and*
  - *Ensure that pay for grant work when an employee is on sabbatical is in accordance with the grantor's sabbatical guidelines.*

- *The college should work with NSF to determine whether it needs to return any grant funds used for compensation.*

9. The college did not have adequate supporting documentation for one employee's payroll assignments and it did not apply the proper tax treatment for some benefits provided to some employees.

The college did not have adequate documentation to support some fiscal year 2015 payroll assignments for one of the employees tested.

- The employee's assignment was not coded accurately in the personnel system. The employee was coded for a full instruction load (30 credits) but our review of course loads indicated employee was assigned only 24 credits. The college indicated the employee was released to work another assignment. However, the employee's assignment in the personnel system did not reflect the release time.

- The college may not have obtained system approval for one employee's work assignments that exceeded the 40% overload limitation in the Minnesota State College Faculty contract. The college did not seek prior approval because it believed one of the grants was competitive. The faculty contract allows an exemption when additional days are required as a condition of an outside grant the faculty apply for competitively and are dispersed through payroll.

We also noted errors related to the treatment of reimbursable tuition for two employees and employer provided housing for one employee.

- Two employees received tuition reimbursements for coursework at a non-MnSCU institution. During calendar year 2015, both employees were taxed on the full amount of their tuition reimbursement. Under federal and state law, the first $5,250 of tuition assistance used by an employee under an educational assistance plan is not subject to income taxation.

- One part-time employee lived in college housing free during the fall 2015 semester but was not taxed on the fair market value of the housing. The human resources office was not aware of the temporary arrangement until our audit. Employees must be taxed for the fair market value of employer provided housing if certain conditions are not met.

Recommendations

- *The college should ensure it has sufficient documentation to support the one employee's assignments, including release or reassigned time and competitive grant assignments.*

- *The college should develop procedures to ensure any benefits provided to employees are reported and properly taxed as employee compensation, including in-kind benefits that may be derived from personal use of college property such as housing or college-owned vehicles.*

- *The college should process payroll adjustments for the three employees to correct errors related to tuition reimbursement and college housing, including issuance of revised W-2 forms, if necessary.*

Section V – Management's Response

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NHED

Northeast Higher Education District

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May 31, 2016

Minnesota State Colleges and Universities
Members of the Board of Trustees
Chancellor Steven Rosenstone
Mr. Eric Wion, Interim Executive Director, Internal Auditing
30 7th Street East, Suite 350
St. Paul, Minnesota 55101

Dear Chancellor Rosenstone, Trustees and Mr. Wion:

Thank you for the opportunity to review and provide responses to the results of the Itasca Community College Internal Control and Compliance Audit that was conducted for the time period covering fiscal years 2013, 2014, 2015, and 2016 through August 31, 2015.

The compliance audit was very timely and useful to us to identify both strengths and weaknesses in our operation. Except for receipts, we are pleased that the college generally had adequate internal controls to ensure it safeguarded assets, properly paid vendors and employees in accordance with management's authorization, produced reliable financial accounting information, and complied with finance-related legal requirements. The college has experienced transition in leadership and in staff positions over the past few years. Personnel changes can directly impact college processes and controls/compliance. We welcome the opportunity to assess areas where compliance can be improved and accountability strengthened.

This compliance audit also validates that it is time to implement a shared business services model across the five colleges of the Northeast Higher Education District. There has been discussion and analysis done for various models over the past several years, but for the most part each NHED college, including Itasca, has retained an autonomous business office. Effective and efficient internal controls are simply difficult to maintain with two to three FTE business office personnel at Itasca and the other colleges. A shared model will also improve service to our constituents as staff can develop deeper expertise by having to focus on less responsibilities. We plan to have our shared services model implemented by November 1, 2016.

The following are the findings detailed in the audit report and our responses to resolve them:

Finding 1:
The college did not have adequate controls to ensure some receipts were safeguarded and properly deposited.

We concur with this finding. Management has already implemented independent review of daily cash reconciliations, the use of separate cash drawers, and securing of receipts while being stored and delivered.

The college has developed and implemented procedures for appropriate collection and deposit of coins from the laundry machines located in the residential halls. Coins are collected from the laundry machines in both Itasca Hall and Wenger Hall every two weeks. The collected coins are delivered immediately to the Business Office for deposit.

The college will identify high risk transactions such as student waivers and refunds, price adjustments or bookstore voids and implement independent review including assurance that documentation is retained.

A review of all locations that collect receipts will be conducted, current controls will be assessed, and modifications will be made that strengthen internal control and compliance. Daily bank deposit process will be reviewed for possible modification during higher-risk periods to reduce risk to employees and to theft.

Finding 2:
The college did not adequately restrict some employees' computer system access.

We concur with this finding. The college has reviewed and removed access for former employees and removed incompatible security rights where possible. Further review of incompatible security rights will be completed to determine the most effective detective control if the incompatibility cannot be eliminated.

The NHED Chief Human Resources Officer will ensure supervisors use the existing Employee Exit Checklist, which does incorporate the notification of ISRS security approval managers of an employment change so that system access can be removed in a timely manner. The ISRS approval managers will also be reminded of their role to ensure the annual ISRS access recertification is completed accurately.

Finding 3:
The college did not follow its procedures related to student housing receivables.

We concur with this finding. The college has implemented a plan to ensure that housing agreements are signed and dated prior to students taking occupancy.

The college is now following the housing eviction process identified in the Residential Living Housing Handbook and initiated the eviction process for students identified as having outstanding housing balances for Spring Term 2016. Written procedures related to housing eviction will be developed and implemented.

The college will develop procedures to ensure the housing module accurately reflects all residential hall occupants. The college will follow its procedures for managing housing receivables including assessment

of late and payment plan fees and fines. Written procedures will be developed to ensure appropriate loading of fines to student accounts.

Finding 4:
The college did not prepare a multi-year plan for its auxiliary operations.

We concur with this finding. The college will develop multi-year plans for its bookstore, food service, and housing operations. These plans will be monitored on an annual basis and adjusted as needed.

Finding 5:
The college did not comply with some purchasing and contract requirements.

We concur with this finding. Staff approving purchase requisitions have been granted the appropriate level of delegated authority. The approver is also reviewing object codes and ensuring compliance with Minnesota Statutes Section 16C.05. Longer-term, purchasing and contracting will be components of shared services so more expertise can be developed to consistently assist faculty and staff.

The college will develop written procedures for entering into contracts as required by MnSCU procedure 5.14.2 Consultant, Professional or Technical Services Contract. The procedures will be communicated to faculty and staff and training provided as needed.

Procurement and disbursement procedures and practices will be reviewed and modified as needed to ensure funds are encumbered prior to making a purchasing or contracting obligation. A list of commonly used object codes and definitions will be made available for faculty and staff use.

The college leadership will discuss and determine appropriate levels of delegated authority and update the required documentation.

Finding 6:
The college did not adequately manage its asset inventory records.

We concur with this finding. The scheduled physical inventory is currently taking place and is being conducted by an employee who is not responsible for the custody of the assets. The inventory procedures will be reviewed and revised to strengthen the equipment disposal process and will be communicated to faculty and staff.

Finding 7:
The college did not have a formal grant approval process and did not comply with conflict of interest requirements.

We concur with this finding. NHED will be formalizing and refining its grant approval process and grant management. The grant management procedures will be revised to include, at a minimum, (1) a mechanism so grant agreements are reviewed by general counsel or the attorney general's office, (2) conflict of interest requirements, 3) time and effort reporting, and (4) retention of documentation, and (5) process for grant application and modification approval by management.

Finding 8:
The college did not follow some NSF federal grant compensation guidelines.

We concur with this finding. The grant management procedures will be revised to address time and effort reporting and compliance with cost principles of OMB circular A-21 and other applicable grantor provisions.

The college erroneously believed that it was following NSF federal grant compensation policies by submitting the total compensation per employee at the time the grant budget was submitted as part of the grant application. It was assumed that when the grant was awarded to the college that equated to the compensation amounts listed in the budget also being approved.

The college will work with NSF to determine if retroactive approval can be granted for compensation that exceeded the limit or if any grant funds need to be returned.

Finding 9:
The college did not have adequate supporting documentation for one employee's payroll assignments and it did not apply the proper tax treatment for some benefits provided to some employees.

We concur with this finding. The individual faculty member's assignment referred to in the finding was miscoded in the personnel system and did not have adequate documentation to support all components of the assignment. This faculty member's annual assignment is very complex due to their grant assignments and shared assignments with other two and four year MnSCU institutions. This individual's assignment had been investigated in the past so the college also believed that it did not need system approval for one of the grant assignments where the college believes the grant is obtained through a competitive process.

Payroll adjustments were processed by the NHED Human Resources Office last fall to correct errors related to tuition reimbursement for two employees. A payroll adjustment will be processed by the NHED Human Resources Office for the part-time employee who received employer provided housing.

The NHED Human Resources Office will develop procedures to ensure any benefits provided to employees are reported and properly taxed as employee compensation. The procedures will be communicated to the appropriate hiring authority.

Sincerely,

William Maki
President, Northeast Higher Education District

Bart Johnson
Provost, Itasca Community College

Cc: Karen Kedrowski, NHED Vice President for Finance and Administration
Laura King, MnSCU Vice Chancellor of Finance and Chief Financial Officer