TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE

FOR THE YEARS ENDED
JUNE 30, 1995, AND JUNE 30, 1994

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June 30, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Floyd F. Amann, President
Shelby State Community College
1256 Union Ave
Memphis, Tennessee 38174

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College, for the years ended June 30, 1995, and June 30, 1994. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The college has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The college's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
96/093

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Shelby State Community College

For the Years Ended June 30, 1995, and June 30, 1994

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control structure; to determine compliance with laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

Inadequate Internal Controls Over College Operations**

Because adequate controls were not established, financial aid requirements were not complied with, assets were not sufficiently safeguarded, and the reliability of accounting data was undermined (page 7).

Student Eligibility Not Documented*

Financial assistance was awarded to students who were not eligible or for whom eligibility was not documented. Costs of $4,088 and $5,075 were questioned for the years ended June 30, 1995, and June 30, 1994 (page 9).

Financial Aid Refunds Not Properly Calculated

Ten of 11 refund situations tested in the year ended June 30, 1995, and ten of 14 tested in the year ended June 30, 1994, were not handled correctly. Costs of $3,308.81 and $4,516.70 were questioned (page 12).

Inadequate Accounts Receivable Controls**

Collection efforts are inadequate. Accounts receivable credit balances are not reviewed and resolved. Some amounts recorded as restricted receivables were not adequately supported (page 14).

Inadequate Notes Receivable Collection Efforts*

Students were not billed monthly, receivables were not referred to collection agencies, and receivables were not assigned to the U.S. Department of Education (page 16).

Controls Over the Drawdown of Federal Funds Not Adequate**

For every month of the year ended June 30, 1994, and eight months of the year ended June 30, 1995, the college had a receivable balance due from the Department of Education that exceeded $100,000. Furthermore, additional funding is not being re-quested in a timely manner (page 18).

Equipment Policies Not Followed*
The general ledger was not adjusted to agree with the physical inventory. The general ledger and the equipment listing were not reconciled. The equipment listing contained inaccurate information (page 19).

Financial Aid Credited to Students' Accounts Too Soon
The college credited financial aid to students' accounts more than 21 days prior to the first day of classes. This is in violation of federal regulations (page 22).

* These findings are repeated from the prior audit.
** These findings are repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

REPORT ON THE INTERNAL CONTROL STRUCTURE

The Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards* (page 4) indicates the collective effect of the audit findings included in this report is a material weakness. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

COMPLIANCE REPORT

The Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards* (page 24) reports the following material instances of non-compliance: financial assistance was awarded to students who were not eligible or for whom eligibility was not documented.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

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TENNESSEE BOARD OF REGENTS
SHELBY STATE COMMUNITY COLLEGE
FOR THE YEARS ENDED JUNE 30, 1995, AND JUNE 30, 1994

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Shelby State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated,* which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1993, through June 30, 1995, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1995, and June 30, 1994. Shelby State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

Shelby State Community College was founded in 1970 and held its first classes in the fall of 1972. This multicampus institution is designed specifically to serve a wide variety of higher educational needs for residents in the Memphis-Shelby County area.

ORGANIZATION

The governance of Shelby State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on January 16, 1996. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college has corrected previous audit findings concerning reconciliation of bank accounts; controls over cash collections; controls over cash disbursements; refunds and overpayments of financial aid; procedures for the Stafford Loan Program; federal financial aid reporting requirements; and physical inventories of library holdings.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning controls over college operations; financial aid awards to ineligible students; controls over accounts receivable; notes receivable collection efforts; drawdowns of federal funds; and controls over equipment. These findings have not been resolved and are repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations, which follow the report on the internal control structure. The collective effect of the reportable conditions was considered a material weakness.

Compliance with Laws and Regulations

The results of our tests disclosed instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. These instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations. The compliance report follows the findings and recommendations.

Fairness of Financial Statement Presentation

The college has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the college's financial statements. The independent auditor's report follows the compliance report.

Report on the Internal Control Structure
Based on an Audit of the Financial Statements Performed in
Accordance With *Government Auditing Standards*

July 26, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated July 26, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The college's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the college's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable conditions noted include the following:

- Shelby State Community College's internal controls over college operations are weak.
- Financial assistance was awarded to students who were not eligible or for whom eligibility was not documented.
- Refunds due to the Title IV student financial assistance programs are not properly calculated or documented.
- Controls over accounts receivable are weak.
- Notes receivable collection efforts are inadequate.
- The college has weak controls over the drawdown of federal funds.
- Equipment policies were not followed.
- Title IV student financial assistance awards were credited to students' accounts more than 21 days before the first day of classes.

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the collective effect of the reportable conditions described above is a material weakness. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the college's financial statements for the years ended June 30, 1995, and June 30, 1994.

We also noted other matters involving the internal control structure and its operation that we have reported to the college's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

FINDINGS AND RECOMMENDATIONS

UPPER MANAGEMENT OF SHELBY STATE COMMUNITY COLLEGE SHOULD IMPROVE THE INTERNAL CONTROLS OVER COLLEGE OPERATIONS

1. FINDING:

As noted in the prior three audits, covering a period of six years, responsible officials at Shelby State Community College have not established sufficient internal control structure policies and procedures. The internal control structure is the plan of organization and all the coordinate methods and measures adopted within an organization to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed managerial policies. Management concurred with the previous findings and stated that action had been taken to improve the internal control structure policies and procedures and that work would be continued to correct the weaknesses. Management has made some progress in establishing controls: The number of repeat audit findings has decreased, and some improvement has been noted in certain repeated audit findings. However, additional improvement is still necessary. Findings in this audit report describe recurring weaknesses in controls over the administration of student financial aid, accounts receivable, notes receivable, cash management, and equipment. Individuals responsible for these areas are identified in the other findings in this audit report.

Upper management is ultimately responsible for establishing the policies and procedures necessary to provide reasonable assurance that specific objectives will be achieved. The weaknesses addressed in this report indicate that a variety of areas should continue to be addressed by top management of the college as well as by officials more directly responsible for the areas.

RECOMMENDATION:

Upper management should review and carefully evaluate the effectiveness of the internal control structure policies and procedures and make the changes necessary to correct the weaknesses identified. Upper management should not limit their review and corrective efforts to just those items noted in this report.

The recommendations made elsewhere in this audit report should be addressed. Specific responsibility should be assigned to appropriate personnel for ensuring that timetables for corrective action are established and that follow-up monitoring is performed. Upper management should review the results of follow-up monitoring, and if the progress of corrective action is unsatisfactory, upper management should take appropriate measures to ensure that the needed action is taken promptly.

MANAGEMENT'S COMMENT:

We concur with the finding.

The Vice President for Business and Finance and the Internal Auditor will identify and correct those areas that may be lacking a proper system of internal controls. This process will be completed during fiscal year 1998.

New procedures have been implemented subsequent to June 30, 1995, in order to improve the college's internal controls as well as address prior audit findings.

The support staff for the office of Student Financial Aid has undergone a 100% personnel turnover and is staffed with professionals who have no ties to the previous years.

Two consultants are presently engaged in the Office of Student Financial Aid and are assisting with daily operations and reimbursement processes.

A new student attendance documentation policy has been implemented to determine eligibility for Title IV funds.

A specific individual has been assigned the task of pro-rata refund and repayment calculations.

Student credit balances are being reviewed on a weekly basis in order to avoid large student credit balances.

Progress with due diligence for Perkins Loans was slowed due to the requirements of the reimbursement process. We are committed to bringing this activity current during the early part of fiscal year 1998.

Pell electronic payment requests are now done within 30 days.

Physical inventories have now been taken and the entire fixed asset accounting system has improved in order to remain current.

Title IV funds are now being credited to students' accounts within the proper time frames.

FINANCIAL ASSISTANCE WAS AWARDED TO STUDENTS WHO WERE NOT ELIGIBLE OR FOR WHOM ELIGIBILITY WAS NOT DOCUMENTED

2. FINDING:

As noted in the prior audit report, Shelby State Community College awarded federal financial assistance to certain students without following various federal regulations. Management concurred with the prior finding and indicated that the situation was being addressed by adding additional staff to the Financial Aid office, developing procedures to reduce the risk of funding student applicants ineligible for financial aid, documenting procedures and processes in a manual, and obtaining additional training for the financial aid staff. While eligibility problems still exist, some improvement has been made. In the prior audit, 33 of 100 student files examined (33%) resulted in questioned costs. In the current audit, nine of 90 student files examined (10%) resulted in questioned costs.

From approximately $5,690,000.00 in Pell, Federal Supplemental Educational Opportunity Grants, and Federal Work Study funds received in the year ended June 30, 1995, $80,849.45 of disbursements were tested. This testwork resulted in questioned costs of $4,088.00. From approximately $5,300,000.00 in Pell, Federal Supplemental Educational Opportunity Grants, and Federal Work Study funds received in the year ended June 30, 1994, $85,385.50 of disbursements were tested. This testwork resulted in questioned costs of $5,075.00. The college's participation in the Stafford loan program totaled approximately $927,000.00 in the year ended June 30, 1995, and $1,284,000.00 in the year ended June 30, 1994. Stafford loans of $6,125.00 and $8,562.00 were tested. There were no questioned costs for the year ended June 30, 1995, and questioned costs of $2,625.00 for the year ended June 30, 1994.

The following instances of noncompliance with the student financial assistance requirements contained in the *Code of Federal Regulations*, Title 34, Part 668, were noted:

For the year ended June 30, 1995

Student 1:

No financial aid transcript from one of two previously attended institutions.

Questioned costs: Pell grant - $925

Student 2:

Violated satisfactory academic progress policy by not maintaining the required minimum grade point average.

Questioned costs: Pell grant - $1,150

Student 3:

Violated satisfactory academic progress policy by exceeding the maximum hours permitted for remedial and developmental courses.

Questioned costs: Pell grant - $2,013

For the year ended June 30, 1994

Student 4:

Violated satisfactory academic progress policy by having more than two appeals granted for violating the satisfactory academic progress policy.

Questioned costs: Pell grant - $1,150

Student 5:

No Student Aid Report.

No signed statement of updated information.

No signed statement of educational purpose.

No signed statement of selective service registration status or reason why it was not required.

No certification that a refund on a Title IV grant was not owed.

No certification that the student was not in default on a federally funded or insured loan.

Questioned costs: Pell grant - $1,025

Student 6:

No financial aid transcript from a previously attended institution.

Questioned costs: Pell grant - $200

Student 7:

> No financial aid transcript from a previously attended institution.
>
> Questioned costs: Pell grant - $400

Student 8:

> No financial aid transcript from a previously attended institution.
>
> Questioned costs: Pell grant - $2,300

Student 9:

> No exit loan counseling. An "exit counseling package" was mailed to the student; however, it was mailed two years after the student ceased to be enrolled.
>
> Questioned costs: Stafford loan - $2,625

The questioned costs resulting from the errors identified in this finding total $11,788.

RECOMMENDATION:

The Director of Financial Aid should ensure that only eligible students receive financial assistance. Adequate documentation of eligibility should be maintained for all aid recipients. The Director of Financial Aid should assign specific employees the responsibility for ensuring that all financial aid eligibility requirements are met and documented. The activities of the employees specifically assigned these responsibilities should be carefully reviewed on a regular basis. Failure to perform all job duties should result in appropriate personnel action.

MANAGEMENT'S COMMENT:

We concur with the finding.

The college has done the following to correct the problem.

1. The staff has received training on verification, automated packaging, and document tracking. The college maintains contact with computer specialists from the

software company that provides training on systems programs which will improve the overall efficiency and effectiveness of the operation. Edit checks for satisfactory academic progress, verification, tracking complete and other functions are built into the system to prevent an award to an ineligible student.

2. During fiscal year 1997, the services of three separate financial aid consultants were used to appraise the effectiveness of the operations of the department, to assist in the day-to-day operations, and to review files for reimbursement for completeness and accuracy.

3. A continuous effort is made to recruit and train the new staff due to a high turnover in the last four (4) years. Efforts to hire experienced staff will continue.

REFUNDS DUE TO THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS ARE NOT PROPERLY CALCULATED OR DOCUMENTED

3. FINDING:

The Financial Aid office and the Records office have not calculated refunds in accordance with the requirements of the Title IV Student Financial Assistance programs. Ten of 11 refund situations examined (91%) in the year ended June 30, 1995, and ten of 14 refund situations examined (71%) in the year ended June 30, 1994, were not handled correctly.

Noncompliance with the following requirements of the Title IV programs was noted:

a. Pro rata refund calculations must be made for first-time students who withdraw on or before the 60% point in time of the enrollment period for which he or she was charged.

b. The refund must be determined as of the student's withdrawal date. For official withdrawals, the student's withdrawal date is either the date the student notifies the college of his or her intent to withdraw or the date of withdrawal specified by the student, whichever is later. For unofficial withdrawals, the withdrawal date is the last recorded date of class attendance as documented by the college.

c. Refunds may be required because of recalculations of students' financial assistance awards. If a student fails to begin attendance in all of his or her classes, the student's award must be recalculated. Federal regulations do not require any recalculation for changes in enrollment status after the student has begun attendance in all of his or her classes. However, the college may choose to recalculate an award if a student's enrollment status changes at any time within a term. If such a policy is established, it must be applied consistently to all students. If the college chooses to recalculate for a student who changes from half-time to full-time, it must also recalculate for a student whose enrollment status decreases. Shelby State Community College's policy is to perform re-calculations for changes in enrollment status that occur before financial aid checks to students are prepared.

In four cases, first-time students withdrew before the 60% point, but no pro rata refund was calculated. In one case the student withdrew within the college's 25% refund period, but no refund was calculated. In three cases students withdrew, but the withdrawal date was not documented. Refunds may have been required. In 12 cases students did not withdraw but did have a change in enrollment status; however, the date courses were dropped was not documented. Refunds may have been required.

As a result of these errors, costs of $3,183.81 in Pell funds for the year ended June 30, 1995, and $3,916.70 in Pell funds and $400.00 in SEOG funds for the year ended June 30, 1994, are questioned.

RECOMMENDATION:

Top management should ensure that the Registrar and the Financial Aid Director develop and implement procedures to determine and document the proper withdrawal and drop/add dates. Based upon these dates, refund calculations should be performed in accordance with federal regulations and college policies.

MANAGEMENT'S COMMENT:

We concur with the finding.

The college has done the following to correct the problem.

1. Established a *Student Attendance-Reporting and Documentation* policy which requires faculty to take daily attendance, maintain the documentation, and report monthly to the Records Office (II:03:01:01).

2. Enhanced the on-line Student Information System (statewide) to store the official withdrawal date of a student on screens 111 and SP4 and to store the unofficial withdrawal date of a student on screen SP3. The Financial Aid Office staff has access to view these screens.

3. Written a program from which the Financial Aid Office staff may produce a report which shows any financial aid student enrollment changes needed for pro-rata refund and repayment calculations.

4. Assigned specific personnel to make the pro-rata refund and repayment calculations.

5. Linked the system screens for calculating a student's refund amounts to the change of enrollment screens. Therefore, regular refunds are automatically calculated in the Records Office whenever there is a change in the student's enrollment. The refund amount depends on the college's calendar as maintained on the system.

CONTROLS OVER ACCOUNTS RECEIVABLE SHOULD BE IMPROVED

4. FINDING:

As noted in the three previous audits, covering a period of six years, Shelby State Community College has not followed appropriate procedures for managing accounts receivable. Management concurred with the previous findings and stated that corrective measures had been or would be implemented to resolve all of the weaknesses noted. Management has made improvements: The portions of the previous finding pertaining to reconciliations of the subsidiary ledger to the control account and the calculation of the allowance for doubtful accounts have been corrected. However, the portions of the finding pertaining to collection efforts, review of credit balances, and proper accounting for restricted receivables have not yet been resolved.

A random sample of 50 accounts receivable outstanding at June 30, 1995, was examined. For 32 of the 50 (64%), proper collection procedures had not been followed. Parties were not billed, billed late, billed less often than required, or their accounts were not submitted to a collection agency.

If proper collection procedures are not followed, the likelihood of collection is reduced. This is evidenced by the fact that 37 of the 50 accounts examined (74%) were one to six years outstanding.

An examination of the 13 accounts receivable with credit balances (negative receivables) greater than $1,000 indicated that no timely review and resolution was performed. Four of these credit balances were over four years old, one was over three years old, one was over two years old, and one was over one year old. Apparently these amounts should have been refunded to individuals, third-party payers, or financial aid programs.

In addition to the previous accounts receivable in the unrestricted current funds, we examined accounts receivable in restricted current funds. From a total of 43 receivables, 15 were examined. Of the 15, six (40%) contained unsupported amounts. Unsupported debit balances totaled $19,996.41, and unsupported credit balances totaled $6,737.56. The net misstatement was $13,258.85.

RECOMMENDATION:

Upper management should ensure that the corrective actions indicated in their response to the prior audit finding are completed on a timely basis. Business office and data processing personnel should complete their review and analyze accounts receivable. Errors should be corrected, collection attempts should be made, and amounts deemed uncollectible should be written off. Collection efforts should be systematic and should include monthly billings, the use of collection agencies, and the write-off of uncollectible accounts. Accounts receivable credit balances should be reviewed monthly for propriety, and this review should be documented.

MANAGEMENT'S COMMENT:

We concur with the finding.

To improve accountability, the Financial Aid Office runs a weekly report of student accounts which show a credit balance. Steps are taken to resolve the credit balance in the case of a withdrawal. To ensure that the credit balance is paid to the student within the time frame set by federal regulations, the Director of Financial Aid and the Bursar, in conjunction with the Financial Aid Management (FAM) Group, decide when accounts will be credited.

Subsequent to the audit, student accounts receivable have been reviewed and those determined uncollectible have been written-off. Student accounts are being billed in a systematic manner and collected or written-off in accordance with college policy.

The third-part accounts receivable review is ongoing and will be completed in the first quarter of fiscal year 1998.

NOTES RECEIVABLE COLLECTION EFFORTS ARE INADEQUATE

5. FINDING:

As stated in the prior audit, collection efforts over notes receivable are inadequate. Management concurred and indicated that the responsibility of managing the notes receivable had been assigned to an accountant who reports to the controller and that monthly billing for all outstanding student loans had begun. Management stated:

> Business office staff is currently engaged in verifying addresses and locating borrowers. Shelby State will follow the "cure process" for assignment of loans on which due diligence was not performed as follows:
>
> (1) Locate Borrower
>
> (a) Postal receipt signed by the borrower
>
> (b) Documentation of conversation which includes the borrower's current address
>
> (c) Address Search (Non-IRS) documentation which includes the borrower's address
>
> (2) Send Borrower - New Repayment Schedule to be signed and returned.
>
> Letter - Informing the borrower of the default status that must be resolved.
>
> (3) No Payment - Initiate collection procedures and litigation if applicable.
>
> The address search will include comparing loan program addresses with student addresses in SIS, use of the Polk Directory and seeking assistance from the IRS.
>
> A Business and Finance procedure for collection of past due accounts, #III-2-2, has been developed in accordance with TBR Guideline B-010. For borrowers who do not respond to the billing process, a letter will be sent to inform them that their account will be referred to a collection agency. Accounts are currently being prepared for submission to a collection agency. This process will begin when TBR notifies us of the new collection agencies. Additional collection efforts will include verification of grace periods and ensuring that promissory notes were properly executed.

However, an examination of 15 Perkins Loan files indicated that the procedures described by management in their response were not completed. Student billings were not performed on a monthly basis for any of the 15, only two were referred to a collection agency, and none were assigned to the U. S. Department of Education.

Collection procedures set forth in the college's policies and procedures manual include providing a letter to students stating the grace period; notice of payment due mailed 15 to 30 days before payment is due; three past due notices; a notice requesting the reason for nonpayment; appropriate delinquent form letters; a letter to inform the borrower of intent to contact his references due to nonpayment; a letter stating that the account will be turned over to another agency for collection if payment is not made promptly; and a letter informing the borrower that his note is being turned over to another agency for collection.

These procedures, if followed, should enable the school to appropriately manage its notes receivable. However, because proper collection procedures have not been followed, notes receivable have become delinquent, and the likelihood of collection is greatly diminished.

RECOMMENDATION:

Upper management should review the actions taken in response to the notes receivable finding in the prior audit and determine why collection efforts are still inadequate. The controller and the accountant responsible for notes receivable should follow through on the procedures described in management's response to the previous finding. A monthly billing cycle should be implemented, all appropriate correspondence with students should be sent, delinquent notes receivable should be referred to collection agencies, and assignments should be made to the U. S. Department of Education. Upper management should continue to monitor and review the progress of corrective action. If the progress is unsatisfactory, upper management should take appropriate measures to ensure that the needed action is taken promptly.

MANAGEMENT'S COMMENT:

We concur with the finding.

The plan previously developed to address notes receivable was not completed due to other pressing issues (e.g., reimbursement, etc.) that the designated personnel had to address. Resources will be allocated to ensure that this activity becomes current during the early part of fiscal year 1998.

THE COLLEGE SHOULD IMPROVE CONTROLS OVER THE DRAWDOWN OF FEDERAL FUNDS

6. FINDING:

As noted in the prior two audits, the controls over the drawdown of federal funds are inadequate. During the prior audit, it was noted that drawdowns were not requested in a timely manner, increases in authorized amounts were not requested in a timely manner, and receipts of federal funds were posted to the accounting records based on the amount of the drawdown requests rather than on the amounts actually received. Management concurred with the prior finding and stated that the Grants Accountant would be responsible for drawdowns, that a new computer interface would speed the requests for additional funding, and that accounting records would be updated only after notification of the actual amount received.

During the current audit, no problems were noted with posting receipts to the accounting records. However, it appears that drawdown requests and requests for increases in authorized amounts are still not made in a timely manner.

For each month of the year ended June 30, 1994, the college had a receivable balance (an amount due) from the U. S. Department of Education exceeding $100,000. The balance of $3,232,889 in November 1993 was the largest. Three other months had receivable balances exceeding $2,000,000. In eight months, the amount expended exceeded the amount authorized by $408,336 to $1,281,407. Increased authorizations were received in subsequent months.

For eight months in the year ended June 30, 1995, the college had a receivable balance from the U. S. Department of Education exceeding $100,000. The balance of $1,199,268 in January 1995 was the largest. In five months, the amount expended exceeded the amount authorized by $38,722 to $560,890. Increased authorizations were received in subsequent months.

When requests for drawdowns and increased authorizations are not submitted in a timely manner, the college uses state funds to subsidize federal programs.

RECOMMENDATION:

The Grants Accountant should more closely match the request for drawdown of Title IV funds with the disbursement of those funds. The financial aid office should promptly request an increase in Title IV funding so as not to impede the receipt of funds from the U. S. Department of Education. Because the actions taken in response to the prior audit finding concerning drawdowns were not adequate, upper management should reevaluate potential solutions. The resulting actions deemed necessary should be closely monitored by upper management with appropriate measures taken to ensure that the desired results are achieved promptly.

MANAGEMENT'S COMMENT:

We concur with the finding.

Internal controls have been improved to enhance the transmission of Pell electronic payments. Specific staff have been assigned to learn from the manual and workshops the proper and expedient ways to maintain records, make adjustments, and transmit. Efforts are made to transmit by the 15th of each month and at least every 30 days, according to federal regulations.

Subsequent to the audit and prior to being placed on reimbursement by the U.S. Department of Education, the college made cash drawdowns on a monthly basis to avoid an excess cash build-up.

EQUIPMENT POLICIES SHOULD BE FOLLOWED

7. FINDING:

Shelby State Community College has not followed its control policies and procedures for the safeguarding and financial reporting of the college's equipment.

A finding in the prior audit report addressed the following weaknesses in accountability over equipment: physical inventories of equipment were not performed, reconciliations between the general ledger and the equipment listing were not performed, equipment items often did not have property tags attached, equipment was often not in the location indicated on the equipment list, the equipment list sometimes did not contain the correct serial number, and some items could not be located.

Management concurred with the prior audit finding and stated:

> We concur with the finding. Responsibility for the Shelby State equipment inventory has been changed from Physical Plant to the Purchasing Department in the Division of Business and Finance, effective January 1995. Additionally, the College has hired an Inventory Supervisor whose main duties are to perform inventories and maintain equipment records. The Purchasing Director has reviewed property control procedures, Business and Fi-

> nance procedures #V-3-1 and #V-3-2, to ensure adequate inventory controls.
>
> A physical inventory for FY 95 is currently in process. Discrepancies such as lack of a decal, missing serial numbers from the equipment listing, and improper locations will be resolved.
>
> The reconciliation of the equipment listing and the general ledger has been completed for fiscal years 1992-93 and 1993-94. All equipment is now being tagged when it is received at the shipping/receiving dock. The actual location of the equipment is recorded for inventory purposes when the equipment is delivered to the college department which is the custodian of the property. Departmental personnel will be advised of the responsibilities related to the unauthorized use, movement, and disposition of college equipment.

Some improvements have apparently been made, but significant deficiencies continue. A physical inventory of equipment was performed for the year ended June 30, 1995. However, the general ledger was not adjusted to agree with the physical inventory. Because of this, the equipment balance on the financial statements was overstated by $458,613. Of this amount, $81,644 was from equipment auctioned off in December 1994 but not removed from the general ledger. The remaining variance of $376,969 could not be explained. No reconciliations between the equipment listings and the general ledger were performed for either year.

The examination of equipment additions for the audit period indicated repeat weaknesses. Three of 42 applicable additions examined (7%) had no property tags attached, an improvement from the 39% error rate in the prior audit. However, eight of 38 applicable additions (21%) did not have correct serial numbers recorded on the equipment list, an increase from the 10% error rate in the prior audit. Thirteen of 43 additions (30%) were not in the location indicated on the equipment list. In the prior audit, 44% were in the wrong location. All items were found in the current audit, whereas 5% could not be located in the prior audit.

Policy V-3-2 of the Shelby State Community College's policies and procedures manual states:

> Upon receipt of goods by the Central Receiving Department, an inventory tag is placed on the equipment at the dock before delivery to the respective department. At this point the Property Officer records the tag and serial number of the item and the building and room number where it is to be delivered on his copy of the purchase order. When payment is made for this item, it is entered into the computerized inventory system. Such listing includes the college equipment tag number, the serial number of the equipment if applicable, a description of the item, the exact location of the equip-

> ment, the purchase order number and date of purchase, the exact amount paid and the account number of the Purchasing Department. This computerized inventory list is reconciled with the accounting system's record of equipment payments at the end of the fiscal year.

Failure to follow proper control procedures for equipment could result in the unauthorized disposition of equipment and/or errors in financial reporting.

RECOMMENDATION:

Upper management should determine why all auditor recommendations and corrective actions stated in management comments in the prior audit finding were not implemented and should take appropriate measures to ensure that the following recommendations are implemented promptly. The inventory supervisor should ensure that equipment records contain accurate information, including serial numbers and locations. Responsible parties should notify the inventory supervisor when equipment is transferred. The inventory supervisor should ensure that equipment items are tagged upon receipt and that missing tags are replaced. The controller should ensure that the general ledger is reconciled with the equipment listing annually and that necessary adjustments to the general ledger are posted. Upper management should monitor the controls for the safeguarding and reporting of equipment and ensure that they are functioning as intended.

MANAGEMENT'S COMMENT:

We concur with the finding.

The proper resources were not allocated during the audit period to take the necessary corrective actions. In FY 1996, however, these matters were acted upon as shown below.

Physical Inventory

A 100% physical inventory was performed for FY 1995-1996 and was completed April 1997. An inventory for FY 1996-1997 began on May 15, 1997, with an estimated completion date of July 15, 1997. We currently have the necessary personnel and support to take annual inventories.

Inventory Reconciliation

An equipment reconciliation was done for FY 1995-1996 that balanced the equipment listings and the general ledger. A reconciliation for FY 97 is currently being done. After the completion of FY 97, a reconciliation will be done on a month to month basis.

Tagging of Equipment

The majority of equipment items are being tagged before leaving the dock. The only items that are not being tagged at that time are those that are extremely large and can be damaged if opened before delivery to the ordering department. These items are then tagged within two to three days.

Serial Numbers

During the physical inventory for 1995-1996, the serial numbers were checked for correctness. Currently, the serial number for every equipment item that is received is documented.

Departments have been instructed to inform the Inventory Supervisor of equipment movement or account changes to any and all equipment. The departments have been advised to be prompt when turning in their paperwork for these changes. The policy and procedures for equipment states that "any transfers between rooms within the same building are not required to be reported until the next Annual Equipment Inventory Confirmation"

TITLE IV STUDENT FINANCIAL ASSISTANCE AWARDS WERE CREDITED TO STUDENTS' ACCOUNTS MORE THAN 21 DAYS BEFORE THE FIRST DAY OF CLASSES

8. FINDING:

In 63 of 90 records examined (70%), Shelby State Community College credited students' Title IV financial assistance awards to their accounts more than 21 calendar days prior to the first day of classes.

The *Code of Federal Regulations*, Title 34, Part 690, Section 78(b)(3), states, "The earliest an institution may credit a registered student's account is three weeks before the first day of classes of a payment period."

RECOMMENDATION:

Upper management should ensure that responsible staff are knowledgeable of and adhere to the federal regulations regarding crediting students' accounts with financial aid. For the audit period, accounts should not have been credited more than 21 days prior to the start of classes. However, in subsequent years Shelby State Community College should adhere to revised federal regulations which permit crediting students' accounts only up to ten days prior to the start of classes.

MANAGEMENT'S COMMENT:

We concur with the finding.

The college has taken the following steps to ensure compliance.

A Financial Aid Management Group that was formed from a cross-section of staff from the Business, Financial Aid, Computer Services, and Admissions and Records offices reviewed U.S. Department of Education regulations to ensure that no awards are credited before the time required by the regulations. A subcommittee of the FAM Group reviews all of processes related to the financial aid feed, purge, and check disbursements. Dates for posting of awards are assigned and included in the calendar of events related to registration. The Financial Aid Director ensures that Title IV accounts are not credited before the proper date. In addition, pay dates are maintained by the system to prevent early crediting of awards.

Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

July 26, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1995, and June 30, 1994, and have issued our report thereon dated July 26, 1996. Our report was qualified because the college excluded the liability for accrued compensated absences from the balance sheets.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the college is the responsibility of the college's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

As described in the Findings and Recommendations section of this report in finding number 2, the college has awarded financial aid to students who were not eligible for assistance or for whom eligibility was not documented.

We considered these instances of noncompliance in forming our opinion on whether the college's 1995 and 1994 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. This report does not affect our report dated July 26, 1996, on those financial statements.

We also noted certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report and certain other less significant instances of noncompliance that we have reported to the college's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

Independent Auditor's Report

July 26, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Shelby State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1995, and June 30, 1994, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the college has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Shelby State Community College, as of June 30, 1995, and June 30, 1994, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated July 26, 1996, on our consideration of the college's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

BASIS OF PRESENTATION

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The college uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as expenditures, for normal replacement of movable equipment and library holdings, and nonmandatory transfers, for all other cases.

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore and food service operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average-cost or first-in, first-out basis.

ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at $20 per volume, and other library holdings are valued at various standardized values. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area 14 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

SHELBY STATE COMMUNITY COLLEGE FOUNDATION

The college is the sole beneficiary of the Shelby State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. COMPENSATED ABSENCES

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The college's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by $784,419.00 at June 30, 1995, and $820,825.00 at June 30, 1994, decreased the unrestricted current fund expenditures by $36,406.00 for the year ended June 30, 1995, and increased the unrestricted current fund expenditures by $88,559.72 for the year ended June 30, 1994.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1995, cash and cash equivalents consisted of $415,278.25 in bank accounts, $3,310.00 of petty cash on hand, $303,874.35 of certificates of deposit, and $3,716,667.51 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1994, cash and cash equivalents consisted of $70,211.79 in bank accounts, $2,042.67 of petty cash on hand, $200,000.00 of certificates of deposit, and $3,713,083.13 in the State of Tennessee Local Government Investment Pool.

NOTE 4. DEPOSITS

The bank balances of deposits including accrued interest as of the balance sheet date were entirely insured or collateralized with securities held by the college's agent in the college's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

NOTE 5. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt.

The college's investments at June 30, 1995, and June 30, 1994, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1995, amounted to $7,333.00 for unexpended plant. Plant fund encumbrances outstanding at June 30, 1994, amounted to $11,955.50 for unexpended plant.

NOTE 7. PENSION PLANS

Defined Benefit Plan

All the college's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was $9,696,372.00 for the year ended June 30, 1995, and $8,623,298.00 for the year ended June 30, 1994. The college's total payroll was $14,382,777.32 for the year ended June 30, 1995, and $13,674,861.47 for the year ended June 30, 1994.

TCRS members may retire at age 60 with five years of service or at any age with 30 years' service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefits are established by state statute.

The college is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the college are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the college. The actuarially required contribution made for the year ended June 30, 1995, was $613,790.00, which represented 6.33% of the covered payroll, and for the year ended June 30, 1994, was $576,899.00, which represented 6.69% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the TCRS' funding status on a going-concern basis, assess progress in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1995, and at June 30, 1994, determined through an actuarial valuation performed as of June 30, 1995, was $10,697.4 million and through an actuarial update performed as of June 30, 1994, was $9,344.5 million. The net assets, at cost or amortized cost, available for benefits were $11,566.8 million at June 30, 1995, and $10,772.4 million at June 30, 1994, leaving assets in excess of pension benefit obligation of $869.4 million at June 30, 1995, and $1,427.9 million at June 30, 1994. The market value of the net assets available for benefits was $12,552.1 million at June 30, 1995, and $11,106.5 million at June 30, 1994. The college's 1995 and 1994 contributions represented .22% of total contributions required of all participating entities.

Ten-year historical trend information showing the TCRS' progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report.*

Defined Contribution Plans

The college has three defined contribution plans offered through the Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance

Company (VALIC). These plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the college to contribute an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was $2,261,629.00 for the year ended June 30, 1995, and $1,773,024.00 for the year ended June 30, 1994. The college's total payroll was $14,382,777.32 for the year ended June 30, 1995, and $13,674,861.47 for the year ended June 30, 1994. The required contribution made by the college for the year ended June 30, 1995, was $226,304.00, which represented 10% of the covered payroll, and for the year ended June 30, 1994, was $177,541.00, which represented 10.01% of the covered payroll.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 9. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of $5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1995, and June 30, 1994, the scheduled coverage for the college was $33,069,900 for buildings and $7,670,500 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $3,700,533.30 at June 30, 1995, and $3,555,375.44 at June 30, 1994.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were $469,286.70 and for personal property were $109,602.95 for the year ended June 30, 1995. The amounts for the year ended June 30, 1994, were $428,885.09 and $34,526.93. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1995, outstanding commitments under construction contracts totaled $5,478,915.00 for the Library and Administration Building projects, all of which will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Questioned Costs - As of June 30, 1995, the college had not resolved $349,446.28 of questioned costs resulting from prior state audits. In addition, the following costs were questioned as a result of the current state audit.

Program	Amount Questioned
Pell	$16,263.51
SEOG	400.00
Stafford Loans	2,625.00
Total	$19,288.51

In addition to the above amounts of questioned costs, costs of $915,377.00 were questioned by the U.S. Department of Education as a result of a federal program review performed in August 1995. The college has appealed $168,455.00 of these costs and recorded a charge to unrestricted current funds scholarships and fellowships and recorded a liability for disallowed costs for the remainder as follows: year ended June 30, 1995 - $298,730.00, year ended June 30, 1994 - $193,134, and year ended June 30, 1993 - $255,058. Because the federal program review included projections of likely questioned costs and covered the same periods as the state audits, the questioned costs are not mutually exclusive. Therefore, resolution of the costs questioned in the federal program review would also resolve a significant portion of the costs questioned in the state audits.