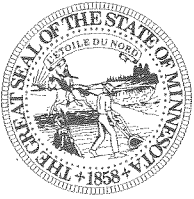

**COMMUNITY COLLEGE SYSTEM
ITASCA COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

MAY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Dr. Philip J. Anderson, President
Arrowhead Community College Region

Dr. Lawrence N. Dukes, Provost
Itasca Community College

Audit Scope

We have completed a financial and compliance audit of Itasca Community College (ICC) for the year ended June 30, 1985, except for those programs and activities further described in the Scope Limitations section of this letter. Section I provides a brief description of the college's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on February 21, 1986.

The objectives of the audit were to:

- study and evaluate major Itasca Community College (ICC) internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements through the Statewide Accounting (SWA) System, and imprest cash;
- verify that financial transactions for state funded programs were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 136, Community College Board policies and procedures, and other finance-related laws and regulations;
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

Senator Randolph W. Peterson, Chairman
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Page 2

The management of ICC is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system 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.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of ICC is also responsible for the college's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by ICC. The purpose of our testing of transactions was to obtain reasonable assurances that ICC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitations

As explained in Section I of this report, major operating activities of Itasca Community College are accounted for through the statewide accounting system. However, certain community college activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities.

The majority of our audit work was done on the ICC activities accounted for through the statewide accounting system. However, during the course of our audit, we also performed limited reviews and testing of a number of ICC All College Fund activities and other functions not accounted for on SWA. These included a review of the ICC emergency loan fund, the bookstore, the ICC student trips, vending contracts, the college's day care facility, and the college's relationship with the ICC Foundation. Audit techniques used in these areas included, but were not limited to, auditor observation, interviews with college personnel, a review of procedures, and examination of documentation supporting selected transactions. The audit work done in these areas was not sufficient to determine whether recordings of financial transactions in manual ledgers for ICC All College Fund activities were proper.

Senator Randolph W. Peterson, Chairman
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Page 3

We did not audit any federal programs, including student financial aid programs, for compliance with federal regulations. Student financial aid programs are a part of the ICC All College Fund. Student financial aid programs administered by ICC will be audited by a private CPA firm for fiscal year 1985.

Conclusions

In our opinion, except for the issues raised in Section II, Recommendations 1 through 7 and 9, and except for the federal programs which we did not audit as described in the Scope Limitations section of this letter, the ICC system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient 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 authorizations.

In our opinion, except for the issues raised in Section II, Recommendation 8, for the year ended June 30, 1985, ICC administered its state funded programs in compliance, in all material respects, with applicable finance-related laws and regulations.

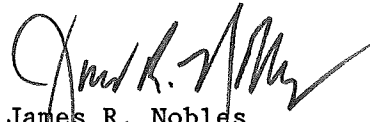
Compliance over federal programs administered by ICC was not evaluated by us, and accordingly, we do not express an opinion on college compliance with those programs.

In our opinion, for the year ended June 30, 1985, ICC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

Recordings of financial transactions in manual ledgers for ICC All College Fund activities were not reviewed by us, and accordingly, we do not express an opinion on the proper recording of those transactions.

The recommendations included in this audit report are presented to assist the college in improving accounting procedures and controls. We will be monitoring and reviewing ICC progress on implementing these recommendations.

We would like to thank the Itasca Community College staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

May 6, 1986

ITASCA COMMUNITY COLLEGE

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	6

AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge
Beth Widstrom-Anderson	Staff Auditor
Theresa Dilworth	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the Arrowhead Region, the Itasca Community College and the Community College System at an exit conference which was held on February 20, 1986:

Dr. Lawrence N. Dukes	ICC Provost
Margaret Kircher	ICC Campus Services Director
William Maki	Arrowhead Region Director of College Services
Jerome Jarosch	Community College System Internal Auditor

ITASCA COMMUNITY COLLEGE

I. INTRODUCTION

Itasca Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a provost. Itasca is part of the Arrowhead Community College Region which includes four other northern Minnesota community colleges who share a regional administration. Dr. Philip J. Anderson is the president of the Arrowhead Community College Region. Dr. Lawrence N. Dukes is the current Provost at Itasca Community College.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Major operating activities of the college are accounted for through the statewide accounting system. Minn. Stat. Chapter 136 exempts certain community college activities from Department of Finance budgetary control, including the use of SWA. The majority of these activities, including federal financial aid programs and auxiliary enterprises, are accounted for through manual records and local bank accounts. These off-SWA activities are generally referred to as All College Fund activities. The All College Fund operates under policies and procedures established by the Board.

Itasca Community College collected \$731,783 in tuition and \$123,026 in other receipts for a total of \$854,809 for fiscal year 1985. These represent 2.8 percent of total fiscal year 1985 community college system receipts. During fiscal year 1985, Itasca Community College spent \$2,308,466 for general operations through the statewide accounting system. This includes \$1,833,835 in payroll and other personal service costs. Itasca's general operating disbursements represent 2.5 percent of the systemwide general operations total of \$90,562,087 for the year.

The full-time equivalent student enrollment for the 1984-85 school year which was covered by this audit, was as follows:

<u>Quarter</u>	<u>Head Count</u>	<u>Full-Time Equivalent</u>
Summer Session	152	29.33
Fall	1119	657.27
Winter	1074	672.20
Spring	1053	597.87

ITASCA COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Accounting control over the Itasca Community College imprest cash fund needs to be improved.

Itasca Community College (ICC) maintains an imprest cash account authorized by the Community College Chancellor's Office and the Department of Finance. The imprest cash account is used for a variety of payments including tuition refunds, non-employee purchased services, miscellaneous local purchases, and employee advances, pursuant to applicable Community College Board policies and Department of Finance policies and procedures. Generally, payments from the imprest cash account are reimbursed from the ICC operating account through the Statewide Accounting (SWA) System. Advances for payroll, travel and conference fees are reimbursed by the person receiving the advance. ICC had an authorized imprest cash amount of \$5000 until May, 1985 when the amount was increased to \$10,000. ICC also has the authority to borrow up to \$5,000 from the auxiliary enterprise account during peak periods when a large number of tuition refunds are being given.

The Community College Chancellor's Office has established written policies and procedures to control imprest cash disbursements at the community colleges. Our review indicated that ICC was not complying with established procedures in the following instances:

- Money borrowed from the auxiliary enterprise account was not repaid on a timely basis as required by Board policy. The money was borrowed at other than "peak periods" and was not repaid for up to five months. The problem is caused by infrequent reimbursements of the fund. The fund is generally reimbursed only about once per month.
- Not all imprest cash disbursements were properly authorized. Seven of the twenty payments tested did not have a college signature authorizing the payment. The unauthorized payments ranged from \$15 to \$227.50 and were for such items as memberships, baseball officials, basketball team meals, and gas purchases. An approval signature assures the college that imprest cash payments are only made for authorized purposes.
- Advances and other amounts to be reimbursed by individuals were not repaid on a timely basis. According to a Department of Finance policy, all travel advances should be settled within 30 days after the travel. Four of the eight advances tested for prompt reimbursement were outstanding for 45 to 65 days.
- Outstanding imprest cash checks have not been cancelled. There are 22 checks written prior to 1985 that are still outstanding, 11 of which were written prior to 1981. The value of these outstanding checks as of December 31, 1984, was \$330.12. Board policy states that all outstanding checks should be reviewed annually, and any check issued and unredeemed for one year should be cancelled.

ITASCA COMMUNITY COLLEGE

RECOMMENDATIONS:

1. *ICC officials should limit the borrowing of auxiliary enterprise funds to peak periods only. The borrowed funds should be returned as soon as possible after the peak period has ended. The imprest cash fund should be reimbursed more frequently to reduce the need to borrow from the auxiliary account.*
2. *All imprest cash disbursements should be properly documented, authorized, and approved before payments are made.*
3. *All advances to employees should be repaid within Department of Finance time guidelines.*
4. *Old outstanding imprest cash checks should be cancelled in accordance with Board policy.*

ICC does not require employees to sign packing slips or other receiving reports to verify that goods were received.

Purchases at ICC are originated by faculty and staff. The goods may ultimately be delivered to either the purchase initiator or to the business office. Currently, the person receiving the goods sends the packing slip, which is used as a receiving report, to the business office. However, the person receiving the goods is not required to sign the packing slip to indicate that the order was complete and the goods were received in good condition. Thirteen of 43 disbursements tested did not have signed receiving documents.

Receiving reports serve two main functions, as discussed in Department of Finance operating procedure 06:05:01. First, they document that goods were received before invoices are paid. They also establish the date the college incurred a liability, or payable, for the goods. This date, referred to as the occurrence date, is entered into the statewide accounting system when the invoice is paid and is used by the Department of Finance to determine payables for the state's annual financial statements.

Signatures and dates on the packing slip or other receiving report would ensure that only invoices for which goods have been received are paid. It would also ensure that the proper occurrence date is used.

RECOMMENDATION:

5. *ICC should require that employees receiving goods sign and date the packing slip to acknowledge receipt of goods.*

Internal controls over bookstore receipts and disbursements are inadequate.

The bookstore is an auxiliary enterprise which maintains its own bank account and accounting records separate from the statewide accounting

ITASCA COMMUNITY COLLEGE

system. The bookstore is staffed by a coordinator and approximately five student workers. Bookstore sales for the year ended June 30, 1985, were about \$132,500.

Separation of duties is necessary to prevent unintentional errors in procedures and to provide a double-check of work done. The small staff size of the bookstore results in many duties being concentrated with the bookstore coordinator. Currently the coordinator operates the cash register, reconciles the daily receipts to the control totals, prepares deposits, and posts to the receipt journal. The same employee also prepares purchase orders, receives goods, posts to the disbursements journal, and performs the monthly bank reconciliation. To provide internal controls over the bookstore activities, at minimum, a business office employee should randomly close the cash register, reconcile cash, and should prepare all monthly bank reconciliations.

RECOMMENDATION:

6. *Someone independent of the bookstore should perform the monthly bank reconciliation and make random checks of the bookstore cash register.*

Controls over the authorization and collection of delinquent Indian Service Loans need to be improved.

Interest free loans are available to American Indian students at Itasca Community College from a \$2500 loan fund made available by the Blandin Foundation. The Indian Service Loan policy states that loans will be approved for \$50 or less and should be repaid by the end of the quarter. If the loan becomes delinquent, the policy states that a hold will be put on the student's academic and financial aid transcripts. As of June 30 1985, 24 outstanding loans totalling \$2436 were overdue; the oldest loan was made in November 1983. As of December 31, 1985, 14 of the 24 loans totaling \$1,406 were still outstanding.

Indian Services loans are approved by the Indian Services Coordinator. The \$50 loan limit has been exceeded on some loans at the discretion of the coordinator. As of June 30, 1985, 18 of the 24 outstanding loans were greater than \$50, the largest being \$300. Also, a \$170 delinquent loan approved by the coordinator in May 1984 was given to the Indian Service coordinator's daughter. Loans had been made to her other children, but they had all been repaid.

Minn. Stat. Section 43A.38 describes conflicts of interest between an employee and the employee's immediate family. Such conflicts are subject to procedures regarding resolution of the conflicts or disciplinary action. The coordinator may be liable for any loans not repaid by her relatives. Loans requested by relatives of the Indian Services coordinator would constitute a conflict of interest as described by this statute. Such loans should be approved by someone other than the coordinator.

ITASCA COMMUNITY COLLEGE

None of the overdue loans were submitted for collection under the Revenue Recapture Act. The Revenue Recapture Act under Minn. Stat. Section 270A, is available for any uncollectible amounts totaling at least \$25. The act takes any available state tax refund as payment. Revenue Recapture is successfully used for delinquent emergency student loans and it should be used for overdue Indian Service loans. The \$50 loan limit should be enforced or the policy should be revised so larger loans can be given.

RECOMMENDATIONS:

7. *The Revenue Recapture Act should be used for delinquent Indian Service loans.*
8. *ICC should enforce the outstanding loan balance limit for Indian Services loans or revise the loan guidelines to specify procedures to follow if exceptions to this rule will be allowed.*
9. *Someone other than the Indian Services coordinator should be approving her children's loans.*



Arrowhead Region

Itasca Community College

1851 East Highway 169, Grand Rapids, Minnesota 55744 (218) 327-1760

FROM THE OFFICE OF THE PROVOST

May 6, 1986

Ms. Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Ms. Leifeld:

This letter constitutes Itasca Community College's formal written response to the draft audit received on April 29, 1986. The response is organized according to the audit recommendations.

1. ICC officials should limit the borrowing of auxiliary enterprise funds to peak periods only. The borrowed funds should be returned as soon as possible after the peak period has ended. The imprest cash fund should be reimbursed more frequently to reduce the need to borrow from the auxiliary account.

RESPONSE: BECAUSE ICC HAS A NUMBER OF UNIQUE PROGRAMS, IT EXPERIENCES MORE PEAK PERIODS THEN OTHER COLLEGES OUR SIZE. NONTHELESS, THE IMPREST CASH FUND WILL BE REIMBURSED TWICE MONTHLY. THIS ACTION WILL BE IMPLEMENTED BY THE DIRECTOR OF CAMPUS SERVICES BY JUNE 1, 1986.

2. All imprest cash disbursements should be properly documented, authorized, and approved before payments are made.

RESPONSE: NO DISBURSEMENTS WILL BE MADE FROM IMPREST CASH WITHOUT WRITTEN AUTHORIZATION OF AN ADMINISTRATOR. THE BUSINESS OFFICE ACCOUNT CLERK WILL BE RESPONSIBLE FOR OBTAINING APPROPRIATE AUTHORIZATIONS COMMENCING MAY 1, 1986.

3. All advances to employees should be repaid within Department of Finance time guidelines.

RESPONSE: ALL ICC EMPLOYEES RECEIVING ADVANCES WILL BE NOTIFIED OF THE DEPARTMENT OF FINANCE GUIDELINES AND THEIR CONTRACTUAL OBLIGATIONS CONCERNING REPAYMENT. THE DIRECTOR OF CAMPUS SERVICES WILL IMPLEMENT THIS ACTION BY JUNE 1, 1986.

4. Old outstanding imprest cash checks should be cancelled in accordance with Board policy.

RESPONSE: ALL OUTSTANDING IMPREST CHECKS OVER ONE YEAR WILL BE CANCELLED BY JULY 30, 1986. THE BUSINESS OFFICE ACCOUNT CLERK WILL BE RESPONSIBLE FOR TAKING THIS ACTION.

5. ICC should require that employees receiving goods sign and date the packing slip to acknowledge receipt of goods.

RESPONSE: ALL ICC EMPLOYEES RECEIVING GOODS WILL BE REQUIRED TO SIGN AND DATE THE PARKING SLIPS. IF GOODS ARE NOT ACCOMPANIED BY A PARKING SLIP, THE INDIVIDUAL RECEIVING SUCH GOODS WILL SIGN THE INVOICE OR USE A RECEIVING STAMP ON A BLANK PIECE OF PAPER. THE BUSINESS OFFICE ACCOUNT CLERK WILL IMPLEMENT SUCH ACTION BY JUNE 1, 1986.

6. Someone independent of the bookstore should perform the monthly bank reconciliation and make random checks of the bookstore cash register.

RESPONSE: AN EMPLOYEE OF THE BUSINESS OFFICE WILL DO THE BANK RECONCILIATIONS FOR THE BOOKSTORE AND WILL MAKE RANDOM CHECKS OF THE BOOKSTORE CASH REGISTER. THE DIRECTOR OF CAMPUS SERVICES WILL BE RESPONSIBLE FOR IMPLEMENTING THIS RECOMMENDATION BY JULY 1, 1986.

7. The Revenue Recapture Act should be used for delinquent Indian Service loans.

RESPONSE: THE BUSINESS OFFICE HAS CONSISTENTLY USED THE REVENUE RECAPTURE ACT AND WILL SEE THAT DELINQUENT LOANS FROM INDIAN SERVICES WILL BE INCLUDED IN FUTURE SUBMISSIONS. THE DIRECTOR OF CAMPUS SERVICES WILL BE RESPONSIBLE FOR GETTING THE NECESSARY INFORMATION FROM THE INDIAN SERVICES COORDINATOR PRIOR TO THE NOVEMBER SUBMISSION DATE.

8. ICC should enforce the outstanding loan balance limit for Indian Services loans or revise the loan guide-

lines to specify procedures to follow if exceptions to this rule will be allowed.

RESPONSE: THE OUTSTANDING LOAN BALANCE LIMIT WILL BE STRICTLY ENFORCED AT \$50.00 WITH EXCEPTIONS MADE ONLY WITH THE APPROVAL OF THE COLLEGE PROVOST UNDER CIRCUMSTANCES TO BE DESCRIBED IN A NEW CAMPUS POLICY. THE PROVOST WILL SEE THAT THE NEW POLICY IS IN PLACE BY JULY 1, 1986.

9. Someone other than the Indian Services coordinator should be approving her children's loans.

RESPONSE: ANY LOANS TO RELATIVES OF THE INDIAN SERVICES COORDINATOR WILL BE APPROVED BY THE FINANCIAL AID OFFICE ACCORDING TO REGULAR GUIDELINES. THE IMPLEMENTATION OF THIS PROCEDURE IS THE RESPONSIBILITY OF THE PROVOST AND WILL BE ACCOMPLISHED BY JUNE 1, 1986.

On behalf of Itasca Community College, please accept our appreciation for the professional manner in which the audit was conducted by your staff.

Sincerely,



Lawrence N. Dukes
Provost

LND:ckh

cc: Dr. Philip Anderson