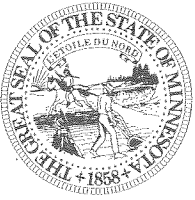


**COMMUNITY COLLEGE SYSTEM
ARROWHEAD COMMUNITY COLLEGE REGIONAL OFFICE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

AUGUST 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

Audit Scope

We have completed a financial and compliance audit of the Arrowhead Community College Regional Office for the year ended June 30, 1985. Section I provides a brief description of the office'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 28, 1986.

The objectives of the audit were to:

- study and evaluate major Arrowhead Regional Office internal accounting control systems, including a review of payroll, disbursements through the Statewide Accounting (SWA) System, and imprest cash;
- verify that financial transactions 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.

We have also conducted individual audits of the colleges which comprise the Arrowhead Community College Region. These include Mesabi, Itasca, Hibbing, Vermilion, and Rainy River Community Colleges. Reports on these audits have been issued previously.

The management of the Arrowhead Regional Office is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are

Senator Randolph W. Peterson, Chairman
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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 the Arrowhead Regional Office is also responsible for compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Regional Office. The purpose of our testing of transactions was to obtain reasonable assurances that the Regional Office had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

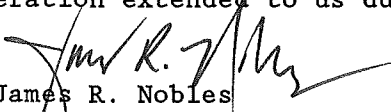
In our opinion, except for the issues raised in Section II, Recommendations 1 and 2, the Arrowhead Regional Office system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

In our opinion, for the year ended June 30, 1985, the Arrowhead Regional Office administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

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

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

We would like to thank the Arrowhead Regional Office staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

August 22, 1986

ARROWHEAD COMMUNITY COLLEGE REGIONAL OFFICE

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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
J. Michael Stoffel	Auditor-in-Charge
Kari Bergum	Staff Auditor
Sandra Linn	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials on February 28, 1986:

William Maki, Director of College Services, Arrowhead Community
College Region
Glenn Wood, Accounting Manager, State Board for Community Colleges

ARROWHEAD COMMUNITY COLLEGE REGIONAL OFFICE

I. INTRODUCTION

The Arrowhead Community College Region was organized by the Minnesota State Community College Board on July 17, 1981, by consolidating the five formerly independent community colleges serving the upper northeast quadrant of the State of Minnesota. The colleges involved, all of which were fully accredited, are Hibbing, Mesabi (Virginia), Itasca (Grand Rapids), Vermilion (Ely), and Rainy River (International Falls) Community Colleges. Dr. Philip J. Anderson is the president of the Arrowhead Community College Region.

Operations of the Regional Office are financed by state appropriations from the General Fund. During fiscal year 1985, the Arrowhead Regional Office spent \$484,611 for general operations through the statewide accounting system. This includes \$372,422 in payroll and other personal service costs.

ARROWHEAD COMMUNITY COLLEGE REGIONAL OFFICE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Duties performed by staff at the Arrowhead Community College Region (ACCR) for the Arrowhead Community College Foundation (Foundation) are not adequately separated.

The Foundation is a separate non-profit corporation, established to solicit and receive private monies for the benefit and promotion of the five colleges in the Arrowhead Region. A written agreement is in effect between the Foundation and the ACCR that allows the ACCR to provide employees to the Foundation for support services or fund raising activities. Currently, the account clerk at the ACCR provides support services to the Foundation. This employee is responsible for the following:

- deposits in the bank, any receipts sent to her from the Foundation;
- keeps all accounting journals and ledgers of receipts and expenditures for all programs of the Foundation;
- receives requisitions for purchases and prepares purchase orders;
- receives invoices from vendors and prepares checks for payment (the signature of two other officials are necessary on all checks);
- reconciles monthly bank statement; and
- prepares monthly financial reports of receipts and expenditures for the Foundation Board of Directors.

Although there is an agreement that allows for these functions to be performed by the ACCR, the ACCR must nevertheless ensure that these functions are carried out properly and establish adequate internal controls to safeguard assets and to prevent errors or irregularities from occurring. To ensure adequate separation of duties, at a minimum, someone other than the account clerk should deposit Foundation receipts. In addition, monthly bank statements should be reconciled, or the reconciliations reviewed, by an independent person.

RECOMMENDATION:

1. *Duties of the Foundation that are performed by the ACCR should not be concentrated in one individual.*

The ACCR office at Mesabi Community College (MCC) does not adequately document the receipt of merchandise before the payment of invoices.

The ACCR office at MCC purchases supplies and equipment for area offices of the ACCR located at MCC, Hibbing, and International Falls. Requisitions for purchase are prepared by individuals at the area offices and

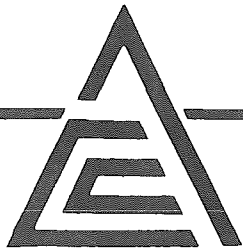
ARROWHEAD COMMUNITY COLLEGE REGIONAL OFFICE

forwarded to an account clerk at the ACCR office at MCC, where purchases orders are prepared. Incoming goods are delivered directly to the area office that initiated the purchase requisition. According to ACCR policies, the area offices should verify the receipt of all incoming goods.

Invoices from the vendor are sent to the ACCR office at MCC, where they are input for payment. However, the ACCR office does not require packing slips or other receiving reports to be submitted by the area offices as evidence that goods were received. Before payment is made by the ACCR office at MCC, they should match the invoice, purchase order, and a signed packing slip from the area office to verify that the goods ordered were actually received, and that the billing is correct. If no packing slip is included, the area office should prepare a receiving report to document what is received. In either case, the signature of the person receiving the goods should be obtained on the packing slip or receiving report.

RECOMMENDATION:

2. *Evidence of goods received should be documented through use of a packing slip or receiving report. This documentation should be matched to a purchase order and invoice before payments are made by the ACCR office at MCC. The signature of the person receiving and checking the goods should be on the document.*



Arrowhead Community College

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

Dear Ms. Leifeld:

The following is our response to the findings and recommendations of the internal control and compliance audit of the Arrowhead Community College Regional Office.

Recommendation No. 1: Foundation receipts are initiated and reviewed by the Director of Administrative Services. Bank statements are reconciled by the clerk-typist under the supervision of the Director of Administrative Services.

Recommendation No. 2: Evidence of goods received, through the use of a packing list or receiving report, will be documented before payment is made.

I would also like to comment on one particular finding that occurred in all of the campuses audits, namely that all travel advances should be repaid within thirty days as required by Department of Finance policies. We agree that thirty days after the expenses are incurred is a reasonable time for repayment and even though neither the Region or the Board Office is aware of this 'policy', the Board Office will develop a procedure to assist in the collection of advances. We have not attempted to recover un-reimbursed travel advances through payroll deduction, but the Board Office is pursuing the possibility for future use with the Department of Finance.

On behalf of the entire ACCR office and campus staffs I compliment the team for their fine professional audit and assistance at that time.

Sincerely,

Philip J. Anderson
President

cc: Bill Maki