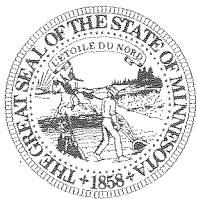


**COMMUNITY COLLEGE SYSTEM
WILLMAR COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986**

SEPTEMBER 1987

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Mr. Harold Conradi, President
Willmar Community College

Audit Scope

We have completed a financial and compliance audit of Willmar Community College (WCC) for the three years ended June 30, 1986, 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 May 15, 1987.

We have issued a separate management letter to the Community College System, dated March 26, 1987, which includes the audit of major federal programs administered by WCC for the fiscal year ended June 30, 1986.

The objectives of the audit were to:

- study and evaluate major Willmar Community College internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements, imprest cash, and federal student financial aid;
- 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; and
- evaluate the recording and reporting of financial transactions on the statewide accounting system.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Dr. Gerald Christenson, Chancellor
Members of the Community College Board
Mr. Harold Conradi, President
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Management Responsibilities

The management of WCC 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 WCC 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 WCC. The purpose of our testing of transactions was to obtain reasonable assurances that WCC had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Scope Limitations

We did not audit major federal programs at WCC for the two fiscal years ended June 30, 1985. Major federal programs were audited by a private CPA firm for those years. We did not review the work done by other auditors on the federal programs and have placed no reliance on their work.

As part of this audit, we evaluated internal controls and conducted certain compliance tests relating to major federal programs at WCC for fiscal year 1987. This audit work was done as a part of our statewide audit of the State of Minnesota's fiscal year 1987 financial statements and federal programs. Additional testing of these programs, including tests of student eligibility and compliance, will be completed after June 30, 1987.

Conclusions

Our study and evaluation disclosed the issues addressed in Section II, recommendations 1 through 5, concerning the Willmar Community College system of internal accounting controls in effect as of April 30, 1987, which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial activities of the college may occur and not be detected within a timely period.

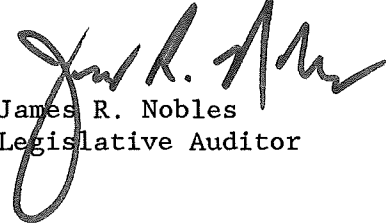
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Members of the Community College Board
Mr. Harold Conradi, President
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In our opinion, subject to the effects, if any, of the federal programs which we did not audit as described in the Scope Limitations section of this letter, for the three years ended June 30, 1986, WCC administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

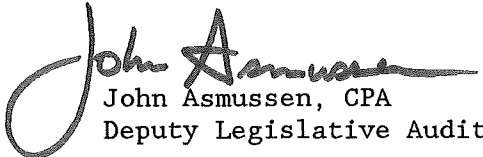
In our opinion, for the three years ended June 30, 1986, WCC properly recorded, in all material respects, its financial transactions on the statewide accounting system.

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

We would like to thank the Willmar Community College staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

September 3, 1987

WILLMAR COMMUNITY COLLEGE

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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
Jerome McCallson, CPA	Auditor-in-Charge
Judy Holthusen	Staff Auditor
Jean Mellett	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in in this report were discussed with the following officials of Willmar Community College at an exit conference which was held on May 15, 1987:

Harold Conradi, President
Terrence Swenson, Business Manager

WILLMAR COMMUNITY COLLEGE

I. INTRODUCTION

Willmar Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of Mr. Harold Conradi, the college president.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Financial activities are accounted for on the statewide accounting system, the community college allocation and accounting system, and the local All-College Fund under policies and procedures established by the Board.

During fiscal years 1984-1986, WCC had tuition receipts and expenditures for general operations through the statewide accounting system as follows:

<u>Fiscal Year</u>	<u>Tuition Receipts</u>	<u>Percent of Total Community College System</u>	<u>General Operating Expenditures</u>	<u>Percent of Total Community College System</u>
1984	\$821,200	3.2%	\$2,508,988	3.3%
1985	\$907,434	3.4%	\$2,772,895	3.3%
1986	\$982,657	3.5%	\$2,866,095	3.2%

The full-time equivalent student enrollment for the three fiscal years covered by this audit, was as follows:

<u>Quarter</u>	<u>FY83/84</u>	<u>FY84/85</u>	<u>FY85/86</u>
Fall	766	805	831
Winter	756	783	804
Spring	715	692	720
Summer Session I	51	70	76
Summer Session II	28	39	44

WILLMAR COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal controls over business office duties relating to receipts and disbursements are inadequate.

The Willmar Community College (WCC) business office is run exclusively by the WCC business manager. He has responsibility for all aspects of receipts and disbursement processing for the campus. Because of this concentration of duties, internal controls over these transactions are inadequate.

Concerning receipts, the business manager receives cash and records incoming receipts on the cash register. He reconciles the cash register tape totals to total cash received. He prepares, signs and delivers the bank deposits and reconciles the bank statements. He also performs the reconciliation between the cash register totals and the student registration system. This reconciliation is intended to prove that sufficient tuition receipts were deposited to support all students put into paid status on the registration system for the day. In order to provide better control, at a minimum, the WCC president, dean, or administrative assistant should review the reconciliation of cash receipts, including the daily cash report and the student registration system. This would independently verify that the cash on hand agrees with the cash register totals and the total of tuition posted to the student registration system. Also, someone outside the business office should review all monthly bank statement reconciliations for reasonableness.

The small business office staff also causes problems with the adequacy of certain accounting records in the area of receipts. The business manager does not have time to document and adequately summarize daily receipts. Transactions are not uniformly rung through the cash register and/or are not rung through the cash register on the day the payment was deposited. Moreover, the college's twenty-year old cash register cannot process corrections to input errors. Therefore, if any mistakes are made in entering transactions, the cash register totals will not agree with other supporting documents. The business manager, who runs the cash register, does not complete void or overring slips to explain these mistakes and discrepancies.

In addition, the business manager does not close out the cash register each day. Rather, he rings out the register on a monthly basis and prepares a monthly summary of deposits. He then compares the monthly summary to the beginning and ending cash register readings. The effect of these shortcuts is inconsistent documentation for receipts and an incomplete audit trail for reconciling items. Also, in some cases, deposits are not made promptly.

Concerning disbursements, the business manager prepares purchase orders as a result of verbal discussions with other college staff and professors. No internal requisitions are prepared. The business manager signs the purchase orders, sends them to the vendors, may receive incoming goods, and

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approves invoices for payment. In order to provide better internal control, all purchase orders should be approved by someone other than the business manager. This separation could be achieved by the use of an internal requisition form which would be signed by the person initiating the order. Incoming goods should be received and verified by someone independent of the business office.

Two objectives of a good system of internal accounting control are to provide reliable data and to safeguard assets and records. It is necessary that a good system of internal control have certain elements or characteristics if these objectives are to be fulfilled. One of these essential elements is adequate separation of duties. Separation of duties prevents both intentional and unintentional errors from occurring and not being detected. The least desirable accounting system is one in which one employee is responsible for a transaction from its origin to its ultimate recording in the records.

All of these factors combine to subject tuition and other receipts, as well as disbursements at Willmar Community College to an unacceptable risk of errors or irregularities. Due to the volume of transactions processed at WCC each year, these areas require the immediate attention of both the college and the Chancellor's Office.

RECOMMENDATION:

1. WCC should reevaluate their organizational structure for the business office to ensure adequate separation of duties over receipts and disbursements, and to ensure that all necessary functions of the business office are performed on a timely basis.

Borrowing to the imprest cash account has exceeded the authorized amount.

Willmar Community College (WCC) maintains an imprest cash account authorized by the Community College Chancellor's Office. The College had an authorized imprest cash amount of \$5,000 until May 1985, when the amount was increased to \$10,000. WCC is allowed to borrow up to \$5,000 from their auxiliary enterprise fund to supplement imprest cash during peak periods, especially when tuition refunds are given. However, according to Community College Board policy, this money is to be returned to the auxiliary enterprise fund as soon as the peak period has ended.

During fiscal year 1986, WCC borrowed \$6,000 from auxiliary enterprise, exceeding their authorized amount by \$1,000. In addition, the \$6,000 was borrowed in December 1985 and not repaid until May 1986, long after the peak period had passed. This is, in part, caused because the imprest cash account is only reimbursed every three to four weeks.

RECOMMENDATION:

2. WCC should limit their imprest cash borrowing from auxiliary enterprise to the authorized amount. All loans should be repaid promptly after the peak period has ended.

WILLMAR COMMUNITY COLLEGE

WCC does not adequately document the receipt of merchandise before the payment of invoices.

WCC receives all ordered items either at the business office or in the maintenance area. The items are then distributed to the individual who initiated the order. This person is required to verify that all items ordered were actually received. Any packing slips, bills of lading, or other types of receiving documentation included with the merchandise are then to be sent to the business office.

However, receiving reports have not always been obtained or retained. In addition, in cases where no packing slip was included with the shipment, no alternate receiving document is prepared. Although college staff told us that the receipt of all goods is verified before any payments are made, but there is usually no written documentation to support this verification.

In order to verify that the goods were received and the invoice should be paid, all packing slips should be signed, dated, and returned to the business office. In cases where no packing slip was sent, a separate receiving report or copy of the purchase order indicating the receipt of goods should be used. The business manager can then compare the receiving report to those items actually billed by the vendor. The use of a receiving report provides assurance that payments are only made for those items actually received.

RECOMMENDATION:

3. WCC should use a receiving report, packing slip, or a copy of the purchase order to certify that the goods ordered have been received. The receiving document should be signed and dated and returned to the business office. It should be compared to the vendor invoice before payment is made.

Payroll duties at WCC are not adequately separated.

Willmar Community College (WCC) has a personnel designee who collects bi-weekly payroll data and prepares payroll rosters. She also approves these rosters and sends them to the Office of the Chancellor for entry into the state's central payroll system. The personnel designee at WCC also maintains the personnel records for the college and acts as a liaison between WCC employees and the Chancellor's Office.

The duties of preparing and approving the payroll roster, as well as maintaining personnel records, are incompatible and should be separated. The separation of incompatible functions is an essential element of internal accounting control. Without proper segregation, errors or irregularities could occur and not be detected. Controls could be improved by having someone independent of the personnel process review and approve the payroll roster before it is sent to the Office of the Chancellor.

WILLMAR COMMUNITY COLLEGE

RECOMMENDATION:

4. WCC should improve internal controls over payroll by having someone other than the personnel designee review and approve the payroll rosters.

The president of WCC is a voting member of the WCC Foundation.

The Minnesota Community College Board has issued a policy for all college support groups. By definition, a community college support group is an organization officially recognized by the President and the Chancellor as an organization that is a separate legal entity independent of the college, created to promote programs and activities which benefit the public educational mission of the community college. The WCC Foundation is such a group.

The Community College Policy on college support groups states that:

The President shall be an ex-officio nonvoting member of the Board of Directors of any college Support Group, including the college Foundation.

Contrary to this policy, the president of WCC is the vice-president of the WCC Foundation. Such a condition creates a potential conflict of interest for the president and could infer improper college control of the Foundation's decisions and management.

RECOMMENDATION:

5. The president of WCC should be an ex-officio nonvoting member of the WCC Foundation, in compliance with the Community College Board policy.



September 3, 1987

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

Dear Ms. Leifeld:

This constitutes our formal written response to your comments and recommendations. Please bring to my attention any misunderstanding of your comments or recommendations that may be apparent in our responses or if our responses do not meet the intent of your recommendations.

RECOMMENDATION 1

Internal control in the Business Office

Responsibility for Implementation: Terrance Swenson, Accounting Officer

To provide internal control in the business office at Willmar Community College, specifically in the areas of receipts and disbursements, the following procedures have been or will be implemented.

A new cash register has been ordered for the business office. This will provide the ability to input corrections and allow for voided transactions as they may occur and also provide timely daily cash reports. Another classified employee is being trained to be able to verify and record tuition receipts and reconcile cash totals.

Starting September 1, 1987 the Dean of the College or Administrative Assistant will periodically review the cash receipts of tuitions as compared to the student registration system to verify that receipts were deposited to support students who were put into paid registration status for any given day. Monthly bank reconciliations will be reviewed by the same individuals.

Starting September 1, 1987 in the area of disbursements, Willmar Community College will implement a more formal procedure for the purchase of all goods. This will require prior approval of purchases by someone other than the business office, i.e. the President, Dean or Administrative Assistant. Individual departments will either prepare the purchase order or prepare the in-house requisition which will be approved before preparation by the business office.

Willmar Community College has had difficulty in establishing adequate internal control due to lack of staff size and the confines of space. Our college is entering into a building project which will include a new business office area that will enhance staff size, working areas and internal control.

RECOMMENDATION 2

Imprest Cash Fund Borrowing

Responsibility: Terrance Swenson, Accounting Officer

Willmar Community College has received an increase in fund size of imprest cash from 5,000 to 10,000 and is also able to borrow 5,000 from auxiliary accounts. Thus, this problem of lack of funds in peak periods has been allievated and should present no problem in the future. If borrowing from the auxiliary enterprise is necessary, loans will be repaid promptly when the peak period has ended.

RECOMMENDATION 3

Documenting Receipt of Merchandise

Responsibility: Terrance Swenson, Accounting Officer

Starting September 1 Willmar Community College will use a signed document for a receiving report for all items. This document will consist of one of the following: the packing slip, a copy of the purchase order, or a formal receiving report form. This document will be signed and dated by the department receiving the goods before payment is completed. Unfortunately, this may present some problems in timely invoice payment.

RECOMMENDATION 4

Willmar Community College has implemented procedures to have a person other than the personnel designee sign payroll rosters. This will be the Business Officer, President, Dean, or Administrative Assistant.

RECOMMENDATION 5

President of Willmar Community College Voting Member of WCC Foundation.

The president of Willmar Community College is now an ex-officio non-voting member member of the WCC Foundation as per board policy.

Thank you for your suggestions and helpful recommendations in our efforts to insure the safety of the public moneys that have been placed in out trust.

Sincerely,



Harold G. Conradi
President

HC/pr