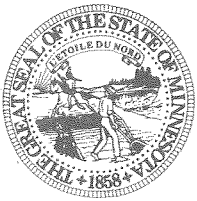


**COMMUNITY COLLEGE SYSTEM
FINANCIAL AND COMPLIANCE AUDIT
FOUR YEARS ENDED JUNE 30, 1987**

OCTOBER 1988

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

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

Audit Scope

We have completed a financial and compliance audit of the State Board for Community Colleges, hereafter referred to as the Board Office, for the four years ended June 30, 1987, except for those programs and activities further described in the Scope Limitations section of this letter. Section I provides a brief description of the Board Office 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 April 19, 1988.

We have issued two separate management letters to the Community College System, dated March 26, 1987 and March 15, 1988, which include the audit of major federal programs administered by the Board Office for the fiscal years ended June 30, 1986 and June 30, 1987, respectively.

The objectives of the audit were to:

- study and evaluate major Board Office internal accounting control systems, including a review of receipts, payroll, disbursements, 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; and
- determine the status of prior audit recommendations.

In addition to the Board Office, the Community College System consists of eighteen community colleges located throughout the state. These colleges are not included in the scope of this examination. Audits of the individual colleges are performed periodically and separate reports are issued upon their completion.

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

The management of the Board Office is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control 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. 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 Board Office is also responsible for office compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Board Office. The purpose of our testing of transactions was to obtain reasonable assurances that the Board Office had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Scope Limitations

We did not audit major federal programs at the Board Office for the two 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 a part of our statewide audit of the State of Minnesota's fiscal years 1986 and 1987 financial statements and federal programs, we evaluated internal controls and conducted certain compliance tests relating to major federal programs at the Board Office for fiscal year 1986, 1987 and 1988. Additional testing of these programs will be completed after June 30, 1988.

Conclusions

In our opinion, except for those issues raised in Section II, findings 1, 2, 3, 5, and 6, the Board Office system of internal controls in effect as of April 19, 1988, 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 relating to those systems are executed in accordance with management's authorization.


Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Dr. Gerald Christenson, Chancellor
Members of the Community College Board
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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, and except for those issues raised in Section II, finding 4, for the four years ended June 30, 1987 the Board Office administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

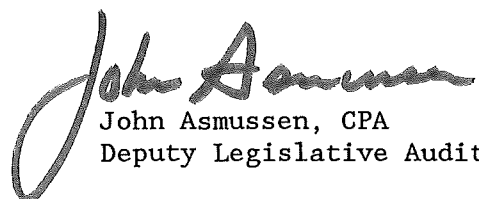
In our opinion, subject to the effects, if any, of the federal programs which we did not audit as described in the Scope Limitations section of this letter, for the four years ended June 30, 1987, the Board Office properly recorded, in all material respects, its financial transactions on the statewide accounting system.

The recommendations included in this audit report are presented to assist the Board Office in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the Board Office's progress on implementing these recommendations. Section III entitled "Status of Prior Audit Recommendations and Progress Toward Implementation" includes a summary of the progress on all recommendations developed during our audit of the Board Office for the year ending June 30, 1983. (Report dated August 29, 1984.)

We would like to thank the staff of the State Board for Community Colleges for their cooperation during this audit.


James R. Nobles
Legislative Auditor

October 7, 1988


John Asmussen, CPA
Deputy Legislative Auditor

STATE BOARD FOR COMMUNITY COLLEGES

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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
Jim Riebe, CPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Kari Bergum, CPA	Staff Auditor
Leslie Dosh	Staff Auditor
Carl Otto, CPA	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of the State Board for Community Colleges at the exit conference held on July 1, 1988:

Dr. Gerald Christenson	Chancellor
Dr. Neil Christenson	Deputy Chancellor
Dr. Carl Gerber	Vice-Chancellor
Glenn Wood	Director of Fiscal Services
Larry Maroney	General Accounting Supervisor

STATE BOARD FOR COMMUNITY COLLEGES

I. INTRODUCTION

The Minnesota Community College System consists of the State Board for Community Colleges, which is the central administrative office, and eighteen community colleges located throughout the state. The system is governed by a nine member board. Board members are appointed by the Governor with the advice and consent of the Senate. The board possesses all powers necessary and incident to the management, jurisdiction, and control of the community colleges. The board appoints the heads of each community college, necessary teachers, supervisors, and all other necessary employees; prescribe courses of study, conditions of admission, fees, and tuition paid by students, graduation requirements, and other rules and regulations for the community colleges. The chancellor is appointed by the board and serves as the chief executive officer of the Community College System. Dr. Gerald W. Christenson has served as chancellor of the system since July 1, 1983.

Major operating activities of the State Board for Community Colleges (the Board Office) are accounted for through the statewide accounting (SWA) system. The Board Office is involved in the administration of the budgets, payroll, and expenditures for all community colleges.

One of the functions of the Board Office is to administer the Tax Sheltered Annuities program for all of the community colleges. During fiscal years 1984-1987, the Board Office purchased annuities totaling from \$1.4 to \$2.2 million each year. Finances of the other Board Office activities are summarized below:

	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>
Salaries and Wages	\$2,228,640	\$2,329,426	\$2,719,415	\$2,947,766
Expense and Contractual				
Services	793,969	1,878,390	2,119,495	1,879,852
Supplies and Materials	63,397	106,152	155,869	123,386
Equipment	213,849	251,474	427,836	734,697
Capital Outlays, Real				
Property	-0-	180,990	216,522	-0-
Grants and Aid	-0-	-0-	-0-	3,200
Nonexpense Disbursements	2,150	-0-	87,290	6,000
Redistributed Services	<u>-0-</u>	<u>1,309</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$3,302,005</u>	<u>\$4,747,741</u>	<u>\$5,726,427</u>	<u>\$5,694,901</u>

STATE BOARD FOR COMMUNITY COLLEGES

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal controls over disbursements need to be strengthened.

The Board Office does not have a centralized unit that authorizes and prepares purchase orders or receives items when they are delivered to the department. Instead, purchase orders are prepared and authorized within each division and a Board Office accounting officer then verifies that sufficient funds exist in the division's budget for the purchase. Divisions also receive their own goods. The Board Office does not require the divisions to prepare receiving reports or to retain packing slips although approval to pay the invoice is obtained from the employee who ordered and received the item. Without receiving reports or packing slips, there is no separate documentation to ensure that the goods or services were received before invoices are paid by the disbursements supervisor. The lack of receiving reports or other documentation makes it impossible to follow the controls and guidelines required by the Department of Finance Operating Policies and Procedures for preparation and approval of payment requests. Finance Procedure 06:05:01 requires the comparison of invoices with authorizing documents and receiving reports to validate that the payment is proper.

Once the invoice from the vendor is sent to the Board Office, the remaining process is controlled by the disbursements supervisor. The supervisor is responsible for authorizing payment coding blocks, batch cover sheets and reconciling the statewide accounting system to ALLO, the Board Office computer system. We are concerned that too many disbursement responsibilities are performed by the disbursement supervisor. This could result in errors or irregularities, including improper payments, not being detected in a timely manner.

Good internal accounting controls ensure that no one person handles all aspects of an accounting transaction. To the extent possible, initiation and approval of transactions, custody of assets, recordkeeping and reconciliation should all be separated from one another. To strengthen disbursement controls, the Board Office should require division managers to review the monthly "expenditure by aid" reports from the statewide accounting system. Also, an independent employee such as the director of fiscal services, could authorize batch cover sheets and review the invoices within the payment batches. Furthermore, the reconciliation between the statewide accounting system and the ALLO system could be performed by an independent employee. This separation would provide assurance that the payments were processed accurately and the probability of errors or irregularities going undetected would be decreased.

RECOMMENDATIONS

- The Board Office should require receiving reports or packing slips that document receipt of goods and that can be compared with purchase orders and invoices before payments are made to vendors.

STATE BOARD FOR COMMUNITY COLLEGES

- Incompatible duties over the disbursement process should be separated.

2. Controls over airplane rentals need improvement.

The Board Office occasionally rents airplanes from a flight company to fly employees to various community colleges for state business. An employee of the Community College System pilots the airplane. The expense for each flight varies depending on the number of people on board and the number of hours flown. During fiscal year 1987, the Board Office paid a total of \$6,864 in rental expense for these flights.

Currently, a department purchase order is prepared each time a plane is rented. However, the Board Office has not attempted to obtain bids on these services and has not established an annual contract with the vendor. These procedures would help ensure that expenses incurred by the Board Office for airplane rentals are the lowest possible, while being consistent with the level of service required.

In addition to the problem with the method used to rent the airplanes, the Board Office did not document which employees were transported on the flights or the reason for the flight. Therefore, it was not possible to verify that the passengers were employees and that they were on legitimate state business.

RECOMMENDATIONS

- The Board Office should obtain bids and negotiate an annual contract with the vendor when it needs to rent airplanes for community college business.
- The passengers and the reason for the flight should be documented on the requisition or invoice.

3. Internal controls over imprest cash and savings accounts controlled by the Board Office need to be improved.

The Board Office is authorized to maintain a \$2,500 imprest cash checking account which is used to make minor payments to vendors. One of the uses for the \$2,500 imprest account is to provide travel and salary advances to Board Office employees. Of 15 travel and salary advances tested, three advances totalling \$822 were repaid 90 days after the advance was made, and another advance for \$400 was settled 60 days after the advance. Travel advances should be repaid within five days after travel is completed, according to Finance Operating Policy and Procedure 06:05:14. Salary advances should be repaid when the employee receives the regular payroll warrant. The Board Office monitors the status of advances by reviewing the travel and salary advance files but employees are negligent in settling the advances promptly. In order to ensure compliance with the

STATE BOARD FOR COMMUNITY COLLEGES

settlement requirement for payroll advances, the Board Office should not release regular payroll warrants until the payroll advances have been repaid. The monitoring function may also have to be strengthened for travel advances.

Duties concerning the imprest account are not adequately separated because the employee preparing checks and making the bank deposit is also performing the bank reconciliations. Although two other employees are required to sign the checks written on this account, errors and irregularities could go undetected when the same individual performs all the other functions including the bank reconciliation.

There is also an inadequate separation of duties concerning the administration of the ALLISS Educational Opportunity (AEO) grant. This grant is provided by the St. Paul Foundation to pay for the books of students meeting the grant requirements. In 1987 the Board Office received an AEO grant for \$150,000. The grant funds are deposited into a savings account at a local bank as provided by Minn. Stat. Sections 136.67, 136.142 - 136.144 and Chapter 118. Then the Board Office reimburses the community colleges for the student's books by drawing a cashiers check on the savings account. The withdrawal must be signed by two employees. However, since one of these employees is also responsible for the recordkeeping and the monthly bank reconciliation, internal controls are weakened.

The operations of the ALLISS grant would be better managed if the account was maintained on the statewide accounting (SWA) system. The SWA system provides numerous benefits to user departments. It has formal operating policies and procedures and automated recordkeeping and reporting capabilities. Furthermore, if the ALLISS grant was maintained in the SWA gift fund, it could also benefit from the investment expertise of the State Board of Investment. For example, during five months reviewed in 1988 the average invested treasurer's cash (ITC) rate of return was approximately 7.5 percent. During the same period, the ALLISS bank account had an average rate of return of about 5 percent. If the ALLISS account had been maintained on the SWA system during that same period, it would have earned an additional 2.5 percent interest. By using the state treasury to maintain the ALLISS funds, the separation of duties weakness would also be diminished.

RECOMMENDATIONS

- Travel and salary advances should be followed up on in a timely manner to ensure prompt repayment to the imprest cash fund.
- Incompatible duties concerning the \$2500 imprest cash account and the ALLISS savings account should be separated.
- ALLISS funds should be deposited in the state treasury.

STATE BOARD FOR COMMUNITY COLLEGES

4. The student payroll imprest cash fund balance exceeded its authorized level, and unclaimed student checks are not reported to the Department of Commerce in accordance with Minnesota Statute.

The Board Office manages a student payroll imprest cash fund which is used to process student federal and state work study payments for all of the community colleges. A review of the December 31, 1987 reconciliation of this account to its authorized level of \$10,000 disclosed \$7,655 in excess of the authorized amount. The excess balance included outstanding checks that have not been cashed. It also includes amounts from stop payments being placed on certain checks. Some of these items date back to 1980. When the stop payments are made, the checkbook balance is increased but the amounts were never reimbursed to the SWA account from which the funds originated.

Control over the imprest cash account is diminished when the authorized level is exceeded when old, outstanding checks are not written off and the amount of the checks representing stop payments are retained within the account. Minn. Stat. Section 16A.45 provides for the cancellation of unpaid warrants that have been outstanding for more than five years. However, Minn. Stat. Sections 345.38, 345.41 and 345.43 require that these checks, which are considered abandoned property, be reported and delivered to the Department of Commerce. This interpretation of the unclaimed property laws was confirmed with Department of Commerce officials.

RECOMMENDATIONS

- If stop payments are placed on student payroll checks, these funds should be reimbursed to the account they were originally funded from.
- Outstanding checks over five years old should be reported to the Department of Commerce in accordance with the unclaimed property laws.

5. PRIOR FINDING NOT RESOLVED. There is no verification that tax sheltered annuity (TSA) contracts are purchased from companies licensed to do business in Minnesota.

Minn. Stat. Section 136.70 enables Community College System employees to negotiate and purchase individual annuity contracts exclusively from companies licensed to do business in Minnesota. Many employees have elected to purchase annuity contracts from out of state companies. The Board Office has no control procedures to ensure that these companies have been appropriately licensed by the Department of Commerce to do business in the State of Minnesota.

Two companies were cited in the prior audit as possibly not being licensed in Minnesota. As of March 1988 the Department of Commerce did not have a record of these companies under the name given to the Board Office. The employee responsible for administering the TSA program stated that, based

STATE BOARD FOR COMMUNITY COLLEGES

on the prior audit recommendation, he attempted to verify that companies were licensed in Minnesota. He also said that the Department of Commerce often has no record of the companies being licensed in Minnesota even though the companies insist they are licensed in the state. Apparently, the companies could be subsidiaries of other corporations, or incorporated under different names in Minnesota. However, the Board Office has a statutory responsibility to verify that the companies are licensed in Minnesota and therefore must pursue the licensing issues with the companies and the Department of Commerce to completion.

RECOMMENDATION

- The Board Office should develop procedures to verify that TSA insurance companies are registered with the Department of Commerce licensing unit. TSA annuity premiums should not be paid to unlicensed companies.

6. PRIOR FINDING NOT RESOLVED. Internal controls over the Board Office receipts require improvement.

Receipts totaled \$48,165, \$51,340, \$86,936, and \$430,607 respectively, for the four years ended June 30, 1987. The significant increase in receipts in 1987 resulted from a one time payment from the State University System. Currently, all receipt functions including recordkeeping and depositing are performed by the revenue analyst. This concentration of duties increases the possibility of errors or irregularities going undetected. To the extent possible, initiation and approval of transactions, custody of assets, and recordkeeping should all be separated from one another.

Other receipt control issues include the lack of both timely depositing and restrictive endorsements. Incoming checks in excess of \$500 may be routed to various office staff for more than a week before they are accumulated and deposited. It was not possible to determine the exact time of the delays in depositing receipts because the Board Office does not require mail to be date stamped. Minn. Stat. 16A.275 requires that receipts in excess of \$250 be deposited daily. Finally, checks are not restrictively endorsed until they are deposited. Incoming checks should be restrictively endorsed to protect them in case of theft or loss.

RECOMMENDATION

- Internal controls over receipt processing should be improved to ensure there is an adequate separation of duties, that checks are restrictively endorsed upon receipt, and that receipts are deposited timely.

STATE BOARD FOR COMMUNITY COLLEGES

III. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

There is inadequate separation of duties for the operation of the tax shelter annuity program.

1. The Board Office should assign responsibility to reconcile tax sheltered annuity payroll deductions to tax sheltered annuity disbursements to an independent staff person.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. During the audit period, an independent employee reconciled the payroll deductions to the program disbursements and approved payment batches. Currently, however, this position is vacant and until another employee is hired, this weakness will continue to exist.

No procedure exists to ensure that tax sheltered annuity contracts are purchased from companies licensed to do business in Minnesota.

2. The Board Office should promptly investigate the two companies which are potentially unlicensed to do business in Minnesota. If they are determined to be improper, all payments made to the companies should be recovered and properly reinvested.

RECOMMENDATION NOT IMPLEMENTED. See current finding #5.

3. The Board Office should develop control procedures to confirm whether the Department of Commerce has appropriately licensed any new tax sheltered annuity vendors to do business in the State of Minnesota before any annuity premium payments are made to those vendors.

RECOMMENDATION NOT IMPLEMENTED. See current finding #5.

The on-line payroll system does not reflect accurate leave balances for Board Office administrators.

4. The Board Office should work with Central Payroll to correct the inaccurate administrator's annual and sick leave balances on the on-line payroll system.

RECOMMENDATION IMPLEMENTED. The Board Office developed an in house computer system which accurately accrues annual and sick leave balances. The year end liability for compensated absences is calculated from this system.

STATE BOARD FOR COMMUNITY COLLEGES

Internal controls over the Board Office receipts require improvement.

5. If receipts continue to be collected by the Board Office, procedures should be established to ensure adequate security over and prompt deposit of these receipts.

RECOMMENDATION NOT IMPLEMENTED. See current finding #6.

PRIOR RECOMMENDATION NOT IMPLEMENTED. The relationship between each community college and its associated foundation should be clarified.

6. The Board Office should determine the extent of services which can be provided to college foundations by their associated community college.

RECOMMENDATION IMPLEMENTED. As of September 1985, the Board Office developed written policies concerning the relationship between the community colleges and their foundations.

7. Written agreements should be made between each community college and its related foundation, clarifying the duties and responsibilities of each party.

RECOMMENDATION IN PROGRESS. As of February 1988, 9 of the 18 community colleges that have foundations have established contracts with their foundations. The Board Office is working with the remaining colleges to establish contracts. Lack of contracts between the remaining community colleges and their foundations will be reported in audit reports of the respective colleges.

PRIOR RECOMMENDATION NOT IMPLEMENTED: Payroll duties in the Board Office are not adequately separated.

8. The Board Office should separate the duties of payroll processing and verification from the actual handling and receipt of the paychecks. Payroll verifications should be done from payroll reports rather than from paychecks.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. Payroll verifications are now done from payroll reports rather than from paychecks. However, the duties of payroll processing and verification are still not separated. The Board Office attempted to change these procedures but encountered significant difficulty in doing so. Since the payroll certification report is signed by an independent employee and payroll transactions are verified (although by the same employee that processes the payroll), current procedures appear adequate to control the payroll process.



MINNESOTA
COMMUNITY
COLLEGES

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203 Capitol Square Building
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612/296-3990

October 7, 1988

John Asmussen, Deputy Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Asmussen:

This letter constitutes our formal written response to the findings and recommendations set forth in the report of the financial and compliance audit of the Community College System Board Office for the four years ended June 30, 1987.

Finding 1. "Internal controls over disbursements need to be strengthened.

Recommendation 1:

"The Board Office should require receiving reports or packing slips that document receipt of goods and that can be compared with purchase orders and invoices before payments are made to vendors."

Response

The Board Office now requires a packing slip or copy of the purchase order to be used as a receiving document for all goods delivered. This document is to be signed by the individual to which the goods have been delivered and is later matched with the approved invoice. A signed receiving report is required before an invoice is paid. We consider this recommendation fully implemented.

Recommendation 2:

"Incompatible duties over the disbursement process should be separated."

Minnesota Community College, Board Office

Response

Invoices received by the Board Office are routed to the manager or division that initiated the purchase to obtain an approval to pay. The approved invoice is then sent to the assistant disbursements supervisor. The assistant disbursements supervisor codes the invoices and verifies that funds are available for payment. A student worker adds the vendor numbers and batches the invoices for input. The disbursement supervisor approves the batches for payment.

Each month the division managers receive a status report which identifies all payments charged to their division. The manager can verify that only the authorized payments have been made.

With the division managers approving all invoices for payment, the assistant disbursements supervisor verifying that funds are encumbered, a student worker batching the invoices for input, and the disbursements supervisor approving the batches, an adequate separation of duties now exists in the disbursement process. We consider this recommendation fully implemented.

Finding 2. "Controls over airplane rentals need improvement."

Recommendation 1:

"The Board Office should obtain bids and negotiate an annual contract with the vendor when it needs to rent airplanes for community college business."

Response

Board policy VI.03.04 Reimbursement - Travel Expenses For Administrators requires advance authorization for the use of private aircraft, rental aircraft is not specified. In accordance with this policy all future use of rental aircraft will require advanced authorization by the Chancellor or designee. Three telephone bids will also be required before authorization for aircraft rental is given.

Person Responsible For Implementation
Neil Christenson, Deputy Chancellor

Recommendation 2:

"The passengers and reason for the flight should be documented on the requisition or invoice."

Minnesota Community College, Board Office

Response

Included in the authorization for the use of a rental aircraft, noted in the above response, will be a listing of passengers and the reasons for the flight. We consider this recommendation fully implemented.

Finding 3. "Internal controls over imprest cash and savings accounts controlled by the Board Office need to be improved."

Recommendation 1:

"Travel and salary advances should be followed up in a timely manner to ensure prompt repayment to the imprest cash fund."

Response

Finance Operating Policy and Procedure 06:05:14 requires that employees submit expense reports within five days of completing the travel. The Board Office employees will be reminded of the policy. Fewer advances are being made from imprest cash, because of the use of the corporate credit card. Our disbursements supervisor will more closely monitor salary advances to insure that repayments are made on a timely basis. We consider this recommendation fully implemented.

Recommendation 2:

"Incompatible duties concerning the \$2500 imprest cash account and the ALLISS savings account should be separated."

Response

In order to separate duties in handling these accounts our internal auditor is now performing a monthly review and reconciliation of each account. We consider this recommendation fully implemented.

Recommendation 3:

"ALLISS funds should be deposited in the state treasury."

Minnesota Community College, Board Office

Response

The funds in the ALLISS savings account will be transferred to the state treasury on or before December 31, 1988.

Person Responsible For Implementation

Glenn Wood, Director of Fiscal Services

Finding 4. "The student payroll imprest cash fund balance exceeded its authorized level and unclaimed student checks are not reported to the Department of Commerce in accordance with Minnesota Statute."

Recommendation 1:

"If stop payments are placed on student payroll checks, these funds should be reimbursed to the account they were originally funded from."

Response

A stop payment is placed on a student payroll check if the check has been lost or stolen. In these cases a new check is issued to the student. The funds that had been transferred from SWA to cover the original check are then used to cover the new check, no reimbursement to SWA is necessary. No further action is required.

Recommendation 2:

"Outstanding checks over five years old should be reported to the Department of Commerce in accordance with the unclaimed property laws."

Response

We will report outstanding checks over five years old to the Department of Commerce by November 1 1988, so that the checks may be included in the next published list of unclaimed property. To date checks totaling \$4,017.82 are over five years old. Checks totaling \$3,560.29 are from one to four years old, and will be reported to the Department of Commerce as they become five years old.

Person Responsible For Implementation

Scott Erickson, Associate Director of Fiscal Services

Minnesota Community College, Board Office

Finding 5. "PRIOR FINDING NOT RESOLVED. There is no verification that tax sheltered annuity (TSA) contracts are purchased from companies licensed to do business in Minnesota."

Recommendation 1:

"The Board Office should develop procedures to verify that TSA insurance companies are registered with the Department of Commerce licensing unit. TSA annuity premiums should not be paid to unlicensed companies."

Response

The Internal Auditor is verifying that all TSA companies are licensed to do business in Minnesota per M. S. 136.70 subdivision 1. Companies that have been found unlicensed are being contacted to provide documentation that they are licensed to conduct business in Minnesota. As of this date TSA payments are being made to 78 companies, 29 of these companies have been found to be unlicensed. They may be licensed under different names, agents, etc. Payments to companies that are found to be unlicensed to do business in Minnesota will be discontinued, and the employees notified of the companies status in the state.

In the future, before a new company is entered into our vendor file, a written verification of license status will be required.

Person Responsible For Implementation

Larry Maroney, Supervisor of General Accounting

Finding 6. "PRIOR FINDING NOT RESOLVED. Internal controls over the Board Office receipts require improvement."

Recommendation 1:

"Internal controls over receipt processing should be improved to ensure there is an adequate separation of duties, that checks are restrictively endorsed upon receipt, and that receipts are deposited in accordance with Department of Finance Policy."

Response

A procedure of logging in and restrictively endorsing all checks received in the Board Office will be implemented on or before December 1, 1988. This procedure will require all

Minnesota Community College, Board Office

checks received to be logged in by the receptionist before they are routed to Fiscal Services for deposit.

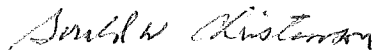
Person Responsible For Implementation

Glenn Wood, Director of Fiscal Services

We appreciate the opportunity to respond to the recommendations. Your continued assistance in improving the financial recording and reporting systems in the Community College System Board Office is welcomed and appreciated.

If you have any questions please feel free to call.

Sincerely,



Gerald Christenson
Chancellor

cc: Neil Christenson, Deputy Chancellor
Glenn Wood, Director of Fiscal Services
Jim Harris, Internal Auditor