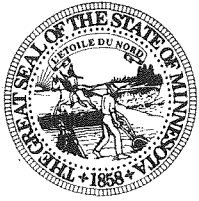


**COMMUNITY COLLEGE SYSTEM
LAKEWOOD COMMUNITY COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
FOR THE FOUR YEARS ENDED JUNE 30, 1988**

APRIL 1989



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald Christenson, Chancellor
Community College System

Members of the Community College Board

Dr. Jerry Owens, President
Lakewood Community College

Audit Scope

We have completed a financial and compliance audit of Lakewood Community College for the four years ended June 30, 1988. 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 Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Fieldwork was completed on January 23, 1989.

The objectives of the audit were to:

- study and evaluate major Lakewood Community College internal accounting control systems, including a review of tuition and other receipts, payroll, disbursements, imprest cash, and federal student financial aid; and
- 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.

Management Responsibilities

The management of Lakewood Community College 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 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.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Dr. Gerald Christenson, Chancellor
Members of the Community College Board
Dr. Jerry Owens, President
Lakewood Community College
Page 2

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 Lakewood Community College 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 the college. The purpose of our testing of transactions was to obtain reasonable assurance that Lakewood Community College had, in all material respects, administered its programs in compliance with applicable laws and regulations.


Conclusions


In our opinion, except for those issues raised in Section II, findings 2, 4, and 5, the Lakewood Community College system of internal accounting controls in effect as of December 23, 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.

In our opinion, for the four years ending June 30, 1988, except for the issues raised in Section II, findings 1 and 3, Lakewood Community College administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

We have reviewed the status of of the six prior audit recommendations included in the fiscal year 1984 audit report on Lakewood Community College which was dated June 25, 1985. We found all prior findings to be fully or substantially resolved. The recommendations included in this audit report are presented to assist the college in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing college progress on resolving these findings.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 23, 1989

LAKEWOOD COMMUNITY COLLEGE

TABLE OF CONTENTS

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

AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Joan Haskin	Auditor-in-Charge
Rhonda Regnier	Staff Auditor
Lois McGuire	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of Lakewood Community College and the Community College System at the exit conference held on February 16, 1989:

Dr. Jerry Owens, President
Larry Miller, Business Manager
Marvin Cohan, Financial Aid Director
Marie Peterson, Business Office Manager
Cindy Rongstad, Financial Aid Assistant

Jim Harris, Community College Internal Auditor

LAKEWOOD COMMUNITY COLLEGE

I. INTRODUCTION

Lakewood Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of a president appointed by the Board. Dr. Carl Gerber served as president of Lakewood Community College until June 1985. Dr. Jerry Owens is the current 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 through the statewide accounting (SWA) 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.

Tuition Receipts and General Operating Expenditures (Unaudited)

<u>Fiscal Year</u>	<u>Tuition Receipts</u>	<u>Percent of Total System</u>	<u>General Operating Expenditures</u>	<u>Percent of Total System</u>
1985	\$ 2,497,324	9.4%	\$ 6,864,354	7.7%
1986	2,603,342	9.1%	7,075,696	7.4%
1987	2,883,618	9.3%	7,574,359	7.5%
1988	3,270,179	9.7%	8,544,233	7.5%

Source: Statewide Accounting System

Student Enrollment (Unaudited)

<u>Fiscal Year</u>	<u>Head Count</u>	<u>Full-Time Equivalent</u>
1985	3878	2174
1986	4050	2210
1987	4472	2363
1988	5045	2578

Source: Lakewood Community College records.

LAKEWOOD COMMUNITY COLLEGE

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Unauthorized expenditures were made from Lakewood Community College Foundation funds.

The Lakewood Community College Foundation is a separate nonprofit corporation established to solicit and receive private money for the benefit of the college. Lakewood Community College personnel provide support services such as keeping accounting records, signing checks, and reconciling the bank statements. Since the college and the foundation are separate entities, the foundation board should authorize expenditures to ensure foundation monies are properly expended.

On March 26, 1986, the acting foundation board voted to dissolve itself. A new foundation board was established and met for the first time on April 28, 1988. During the time that no foundation board existed, all foundation funds remained in a checking account, a savings account, and a money market in the name of the Lakewood Community College Foundation.

From the time of the foundation board's dissolution to December 15, 1987, the Lakewood Community College business office expended foundation funds for previously approved foundation activities. However, on December 15, 1987 and on April 11, 1988, college personnel signed foundation checks totaling \$9,850 for building an atrium on the college campus. There was no evidence that the prior foundation board had approved the atrium before its dissolution.

We believe that the college should not have spent foundation funds to build the atrium without explicit authorization from the Lakewood Community College Foundation. In addition, if these disbursements were made with money borrowed from the foundation, the college may have violated state procurement policies relating to bidding and contracting for the construction. This project was not bid out and the contract was not properly approved.

RECOMMENDATION

- Lakewood Community College should not expend foundation funds without the express approval of the Lakewood College Foundation.

2. Procedures for distributing payroll checks need to be improved.

The business office receives incoming payroll checks to be distributed to employees. Checks are placed into envelopes labeled with the employee's name and then put in a box in the business office. Employees take their check from the box, sign the envelope, and leave the envelope in the business office. If an employee picks up someone else's check, they are supposed to sign the envelope to show who took the check. No records are maintained at the business office identifying who takes checks.

LAKEWOOD COMMUNITY COLLEGE

This system does not maintain adequate custody over the payroll checks at all times. Responsibility for safeguarding and distributing paychecks is not clearly assigned to specific individuals. Employees have access to all of the checks. An employee could pick up another employee's check without authorization. The business office should maintain documentation of any checks which were picked up by another employee.

RECOMMENDATION

- The Lakewood Community College business office should change the payroll check distribution procedures to restrict access to the checks. Any distribution of paychecks to second parties should be documented.

3. Lakewood Community College does not have a record retention schedule.

Lakewood Community College does not have a record retention schedule and has kept every financial record since the college's inception in 1967. Because of this, a tremendous amount of space is used to store the records and it is difficult for the business office to locate important records which it needs. For example, during the audit, the bookstore's general ledgers for several years could not be located. Although they were ultimately found, the vast amounts of records being stored on the campus makes records management difficult.

The Department of Administration's records management division aids state agencies in determining records retention policies. Lakewood Community College should inventory all records in its custody and work with Administration to prepare a record disposal request for unnecessary records. The college should also prepare a records retention schedule. This schedule, to be approved by the college president and the state's records retention panel, establishes a time period for the ongoing retention or disposal of each series of records.

RECOMMENDATION

- Lakewood Community College should work with the Commissioner of Administration to prepare a record retention schedule.

4. VOIDS AND REFUNDS ARE NOT ADEQUATELY DOCUMENTED AT THE LAKEWOOD COMMUNITY COLLEGE BOOKSTORE.

All purchases made in the bookstore are rung up through the bookstore cash register. At times it may be necessary to void a transaction after it has been recorded due to a keying error by the cashier. The void key on the cash register deducts the voided transaction from the daily totals immediately. Voids are not signed by the cashier who made the void nor are they approved by a second bookstore employee. The only documentation for voids is the cash register tape.

LAKEWOOD COMMUNITY COLLEGE

Refunds may be given to students who return books and other articles to the bookstore. The student must present the original sales slip in order to receive a refund. When money is refunded, a paid-out slip is prepared and initialled by the cashier, and signed by the person receiving the refund. The slip gives information about the returned item. However, when refunds are part of another transaction and cash is not refunded, no slip is prepared to document the transaction. A return key is used to subtract the item from the transaction total and from the daily total.

Voids and refunds are sensitive transactions because they document differences between cash recorded and cash deposited. Without proper approval and documentation of voids and refunds, the possibility exists that unauthorized cash could be obtained from the cash register. Each void should indicate who made the void and should be approved by a second bookstore employee. For all refunds, the student should complete and sign a form that lists the student's name, ID number, items being returned, and amount of refund. The bookstore employee should review the form, compare it to the sales receipt, and sign the form. These forms should be placed in the cash drawer and reconciled to the daily sales report generated by the cash register at the end of the day.

RECOMMENDATIONS

- Bookstore employees should document all bookstore voids and refunds. Each void should indicate which employee made the transaction and should be approved by a second employee.
- Documentation for refunds should show all pertinent information concerning the refund and should be signed by both the student receiving the refund and the bookstore employee.

5. Bookstore purchase orders are not prepared until goods and invoices have been received.

The bookstore manager does not always prepare purchase orders until the goods and the invoice have been received. In addition, bookstore purchase orders are often vague and do not have adequate detail regarding specific items ordered, quantity ordered, and price. Because of this, it is difficult for the business office to compare invoices to the related purchase orders before payments are made.

Purchase orders should be completed at the time items are ordered. Since purchase orders confirm the items to be purchased and the prices involved, they should be as specific as possible. The authorizing signature on the purchase order ensures that goods and services purchased are for authorized agency purposes and avoids excessive or unnecessary purchases. Purchase orders reduce the risk of misunderstanding and of receiving and paying for items not ordered.

LAKEWOOD COMMUNITY COLLEGE

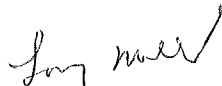
RECOMMENDATION

- The bookstore manager should prepare and sign purchase orders at the time goods are ordered. Purchase orders should state specific items ordered, quantities, and prices.

MEMORANDUM

DATE: April 19, 1989

TO: Dr. Owens

FROM: Larry Miller 

RE: Responses to Recommendations on June 30, 1988 Audit

Finding Number:

1. Before we expend funds from the Foundation Account we will require written approval on the request by either the President (Luke Anderson), Treasurer (Ed Pendergast) or Secretary (Marguerite Waldoch) - Foundation Board Officers.
2. A student worker will issue the envelope containing paychecks. That person will have employees sign their envelope and leave it. If a person takes someone else's paycheck, they will sign that person's envelope and leave it.
3. Lakewood will work on a retention schedule and will dispose of old records per the schedule. Goal is to have schedule written, approved, and old records disposed of by September 1, 1989.
4. Void: When a void occurs, the cashier will run a void slip through the cash register printer similar to one attached. It will record the transaction. The cashier will initial it, put reason for the void and have either Karen Larson, Jann Holter, or Denise Cary-Geifer approve it. The slip will be attached to the cash report.
- Refunds: All refunds will have documentation as requested in the audit recommendation.
5. A. When ordering books from the publishers, the quantity, author, and title will be shown on the purchase order. We cannot show prices on the purchase order because there is no current publication listing current prices. We would have to call each publisher to obtain current prices. Therefore, prices are obtained from the packing slip or invoice. Two other community colleges I called agreed that it would be very time consuming to get the prices ahead of the packing. They both operate as stated above.

B. When ordering gifts we will show quantity, description, and price on all purchase orders.

C. Most candy is ordered from one distributor that comes in, inventories our stock, and calls in an order using a computer attachment through the telephone. We receive the order, verify against packing slip, prepare a P.O. and pay the invoice.

D. Most supplies are ordered at the 2 conventions that the Manager attends where all the vendors display their goods. She does a price comparison and prepares the orders at the convention. Copies of the orders are attached to the Purchase Orders. Supplies ordered outside of convention will be via a purchase order to vendor showing quantity, description and prices.

A copy of the Audit, Findings, and our response will be given to Marie Peterson and Karen Larson. I have discussed these findings with them and asked them to follow them.

cc: Marie Peterson
Karen Larson