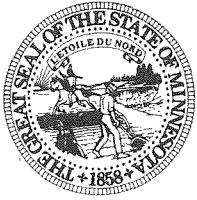


**MINNEAPOLIS COMMUNITY COLLEGE  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE PERIOD JULY 1, 1986  
THROUGH DECEMBER 31, 1988**

**JUNE 1989**

**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

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Senator John E. Brandl, Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Gerald W. Christenson, Chancellor  
Community College System

Members of the Community College Board

Mr. Earl W. Bowman, President  
Minneapolis Community College

**Audit Scope**

We have completed a financial and compliance audit of Minneapolis Community College for the period from July 1, 1986 through December 31, 1988. Section I provides a brief description of Minneapolis Community College's activities and finances. Our audit was conducted 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.

We have determined compliance with material federal financial aid regulations as part of our Statewide Audit of the State of Minnesota's annual financial statements and federal programs. We evaluated specific internal accounting controls over the federal financial aid programs at Minneapolis Community College during the current audit.

**Internal Accounting Control Systems**

One objective of this audit was to study and evaluate major internal accounting control systems over tuition, imprest cash, payroll, administrative disbursements made through the statewide accounting system, and federal financial aid at Minneapolis Community College. We evaluated the system as of March 15, 1989.

The management of Minneapolis 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 cost of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly.

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Page 2

Because of the inherent limitations of 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 have become inadequate because of changes in conditions, or that the degree of compliance with the procedures may have deteriorated.

#### Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. Legal compliance requirements for Minneapolis Community College are found in the statutes governing all community colleges, community college board policies, and general state agency statutes and Department of Finance policies. Federal programs administered by the college are governed by applicable federal regulations. Minneapolis Community College was established by Minn. Stat. Section 136.60.

Minneapolis Community College is subject to various legal provisions under which all community colleges operate. Minn. Stat. Section 136.63, Subd. 1a gives the board the authority to set tuition and other fee rates. The board has established these rates through board policy. This section also appropriates receipts to the board office subject to the budgetary control exercised by the commissioner of Finance. Minn. Stat. Section 136.171 requires tuition receipts collected for summer school to be reappropriated to the college to be available for the fiscal year beginning July 1 during the summer session.

Minneapolis Community College is also subject to certain general legal provisions which affect the financial management of most state agencies. Specifically, Minn. Stat. Section 16A.275 requires the prompt deposit of receipts and Section 10.12 requires the cancellation of uncollectible drafts; and Minn. Stat. Section 16A.45 allows cancellation of outstanding checks. Minn. Stat. Section 16A.124 requires the prompt payment of college bills. Minn. Stat. Section 16A.15, Subd. 3 requires that funds be encumbered prior to obligation. An imprest cash fund has been established at the college, pursuant to Minn. Stat. Section 15.191. The imprest cash account is also subject to the requirements of Minn. Stat. Section 136.56. Finally, Minn. Stat. Sections 16A.17 and 43A.37 relate to preparation and certification of payroll, and Minn. Stat. Section 43A.191, Subd. 2 requires the college to have an affirmative action plan. The Department of Finance has also adopted policies and procedures for many of these areas.

Some of the college's activities are exempt from the statutes which generally affect most state agencies. Minn. Stat. Section 136.67 exempts federal financial aid, as well as fees charged for student activities, from the budgetary controls exercised by the Department of Finance.

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Page 3

The management of Minneapolis Community College is 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 Minneapolis Community College had, in all material respects, administered their programs in compliance with applicable laws and regulations.

#### Scope Limitation

We were unable to audit child care center receipts for the the period from July 1, 1986 to December 31, 1988. Sufficient records of receipt transactions were not maintained during the audit period. New procedures were implemented at the child care in August 1988 and current internal controls over child care receipts are adequate.

#### Audit Qualification

During 1987, Minneapolis Community College made two illegal emergency appointments, in violation of Minn. Stat. Section 43A.15, Subd. 2. The Department of Employee Relations discovered these employees had worked longer than the 30 days allowed by statute. Upon review, the employees were paid in accordance with Minn. Stat. Section 43A.37, Subd. 1. As a result of these illegal appointments, the college has changed its process for monitoring emergency appointments.

#### Status of Prior Audit Findings

We reviewed the status of the audit findings contained in our audit report on Minneapolis Community College for the three years ended June 30, 1986, dated January 5, 1988. This report contained 34 findings. Our follow-up has shown that six of the prior findings have not been resolved. Two additional findings have been only partially resolved. All unresolved issues have been repeated within the current report.

We test Minneapolis Community College's federal financial aid programs during our annual Statewide Audit of the State of Minnesota's financial statements and federal programs. We issued two separate management letters to the Community College System concerning federal financial aid during the audit period. They were dated March 15, 1988 and March 3, 1989 and covered fiscal years 1987 and 1988, respectively. The fiscal year 1987 management letter indicated that Minneapolis Community College was not complying with federal regulations requiring that students' academic progress be adequately monitored. The fiscal year 1988 management letter did not contain any findings relating to the college.

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Page 4

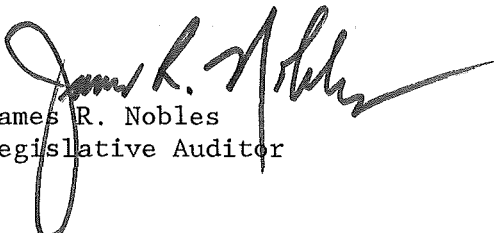
### Conclusions

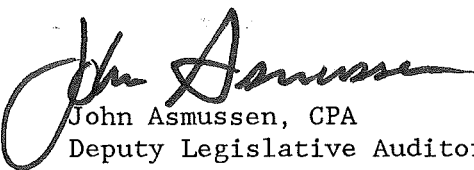
In our opinion, the Minneapolis Community College system of internal accounting control in effect as of March 15, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Section II, findings 4, 6, 8, 10-14, and 18, represent weaknesses in Minneapolis Community College controls. We believe the weaknesses subject the college assets to an unnecessary financial risk and should be corrected. Progress on resolving these findings will be reviewed during the next year.

The results of our testing of transaction and records indicated that, except for findings 5, 7, 9, and 15-17, Minneapolis Community College complied with the statutes cited in the finance-related legal provisions section of this letter. As part of our internal control evaluation of federal financial aid, we found the instances of noncompliance with related federal regulations discussed in findings 1 through 4, and discussed in the status of prior findings section of this letter. In addition, we found that the college had made two illegal emergency appointments, as explained in the audit qualification section of this letter. Nothing else came to our attention in connection with our audit that caused us to believe that Minneapolis Community College was not in compliance with any other applicable legal requirements.

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

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

END OF FIELDWORK: April 21, 1989

REPORT SIGNED ON: July 6, 1989

# MINNEAPOLIS COMMUNITY COLLEGE

## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	13

## 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
Michael Hassing	Auditor-in-Charge
Beth Hammer	Auditor
Joan Haskin	Auditor
Sandy Linn	Auditor

## EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following officials of Minneapolis Community College and the Minnesota Community College System at an exit conference on April 21, 1989:

Earl Bowman	President
Maggie Kircher	Director of Institutional Services
Henry Stevens	Business Office Supervisor
Ruth O'Dell	Personnel Designee
Josephine Reed-Taylor	Dean of Students
Nick Maras	Dean of Continuing Education
Bob Moeller	Financial Aid Director
Sharon Nelson	Bookstore Manager
Jim Harris	Community College System Internal Auditor





# MINNEAPOLIS COMMUNITY COLLEGE

## I. INTRODUCTION

Minneapolis Community College is under the management and control of the Minnesota State Board for Community Colleges and the immediate supervision of Mr. Earl Bowman, the college president.

Operations of the college are financed mainly by student tuition and fees and state appropriations from the General Fund. Instructional and operating activities are accounted for on the statewide accounting system. Other activities, such as federal financial aid and auxiliary enterprises are accounted for through manual records and local bank accounts. These local accounts are referred to as the All College Fund and are exempt from Department of Finance budgeting and accounting requirements. Community college board policies govern the use of the All College Fund.

According to Community College System records, Minneapolis Community College collected \$2,711,390 in tuition and other fee receipts during fiscal year 1988. This amount represents 7.1 percent of the community college tuition and fee receipts for the year. During fiscal year 1988, Minneapolis Community College spent \$8,048,096 for general operations through the statewide accounting system. The largest expenditure category was payroll, comprising \$6,528,772 or 81.1 percent of their disbursements.

## MINNEAPOLIS COMMUNITY COLLEGE

### II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Interest earned on the federal funds in the financial aid checking account was used for an unauthorized purpose.

Federal financial aid funds are deposited into an interest-earning checking account. The business office transferred a portion of the interest earned by this account to repay loans given to Indian students. These loans had been given during the period from 1982 to 1984 in anticipation of payments from the Bureau of Indian Affairs. However, the college never received repayment as anticipated. Accordingly, funds were disbursed, but no deposits had been made to these accounts.

Public Law 99-498 states that any interest earned on federal financial aid (Title IV) funds must be used for Title IV programs. The Indian Affairs financial aid accounts are not part of the Title IV programs. Therefore, the transfer of funds represents an unauthorized use of funds and must be repaid.

#### RECOMMENDATION

- Minneapolis Community College should return the interest used to pay off the outstanding Indian accounts to the Title IV program accounts.

2. PRIOR FINDING NOT RESOLVED: Excessive federal cash balances are maintained in the student financial aid checking account.

Minneapolis Community College uses one checking account for all federal financial aid receipts and disbursements. The college is maintaining excessive federal cash in this account. For each of the four months tested during the audit, the average cash balance in the financial aid account exceeded \$100,000.

The business office supervisor and financial aid director jointly determine the amount of cash to be requested from the federal government. However, the amount to be requested is not based on immediate need. Federal regulations require cash on hand to be limited to the immediate cash needs of the recipient. Cash balances in the financial aid account at the college should be reduced by requesting smaller amounts of cash on a more timely basis. The request for cash should correlate directly with anticipated actual disbursements.

#### RECOMMENDATION

- Minneapolis Community College should limit federal cash requests to actual, immediate needs and request money as frequently as necessary to eliminate excessive cash balances in the federal financial aid checking account.

## MINNEAPOLIS COMMUNITY COLLEGE

3. PRIOR FINDING NOT RESOLVED: Unawarded grant checks are not being returned on a timely basis.

State grant checks are prepared by the Minnesota Higher Education Coordinating Board. The checks, along with a payment roster, are sent to the college for disbursement to eligible students. The financial aid office verifies that the students on the roster are entitled to the grants and determines any refunds due to the board because of any change in enrollment status. The coordinating board requires that the payment roster and any unawarded checks be returned within 30 days after the academic term begins or after receipt of the warrants, whichever is later. Minneapolis Community College is not returning the roster and the unawarded checks on a timely basis. For example, a roster and unawarded checks dated August 29, 1988 were not returned until December 7, 1988.

It is important that unawarded checks be returned so that funds may be reissued to other eligible students. In addition, without a timely review of the checks on hand, there is an increased possibility of the checks being lost or stolen.

### RECOMMENDATION

- Minneapolis Community College should ensure that state grant checks are reviewed regularly and that unawarded checks are returned to the Minnesota Higher Education Coordinating Board within the required time period.

4. An adequate separation of duties does not exist over the college work study program.

A student is responsible for processing the biweekly payroll for students funded through the college work study program. As of winter quarter 1988, the student processing college work study payroll was funded through the same work study program. The student reviews time sheets and enters hours worked onto a payroll record called the OpScan sheet. The OpScan sheet is used by the board office to enter payroll transactions onto the computer system. Although the OpScan sheet is approved by the student's supervisor and the financial aid director, the student routinely has access to the OpScan sheet after it is signed. In order to provide an adequate separation, the student should not have access to the OpScan sheet after it has been signed. The student also receives the payroll check register from the board office and verifies that the payroll has been entered correctly. The same person also maintains a record of the maximum hours a student is eligible to work and a current balance of hours worked during the quarter. In order to provide adequate control, payroll verification and recordkeeping for the work study program should not be done by the student who processes student payroll. While we did not note any discrepancies, procedural changes are necessary to eliminate the risks.

## MINNEAPOLIS COMMUNITY COLLEGE

### RECOMMENDATION

- Minneapolis Community College should change their procedures for processing college work study payroll to ensure that adequate separation of duties exists.

5. Minneapolis Community College does not review the biweekly certification reports for classified employees.

The college is responsible for collecting classified employee timesheets. A payroll roster lists the number of hours worked and leave taken for each employee. The roster is submitted to the Community College Board Office, where payroll information is entered into the state's central payroll system. After the pay has been calculated, the Central Payroll Division of the Department of Finance sends a payroll certification report to the board office for review. An authorized person at the board office signs the report, returns it to central payroll, and sends a copy to the Minneapolis Community College personnel office.

The review of the certification report by the board office consists only of a review of hours for administrators and faculty, for which 80 hours regular pay are always shown. Since the time sheets and leave slips for classified employees are on file at the individual college campuses, the board office has no way to verify that information was correctly entered into the payroll system. Because of this, the board office requires the community colleges to review the hours for the classified employees shown on the certification report. Such a review is also required by Department of Finance operating procedure 07:04:29 to verify that all of the agency's employees were paid correctly. However, Minneapolis Community College does not perform this review.

### RECOMMENDATION

- Minneapolis Community College should verify the hours worked and leave taken on the biweekly certification report for classified employees, as required by procedure 07:04:29.

6. Leave records for certain Minneapolis Community College employees are inadequate.

The Minneapolis Community College personnel office does not keep accurate, up-to-date leave records for the 13 administrators who work for the college. Sick leave is not accrued automatically by the state payroll system for administrators. Rather, full-time administrators must be credited for a certain number of sick leave days at the beginning of each contract year. The personnel office has not prepared the paperwork necessary to credit the administrators with their sick leave for at least the last two years. Therefore, the sick leave balances shown on the state payroll system are erroneous. The state payroll system will not allow use of sick leave in excess of the balance in the system. Therefore, sick leave taken

## MINNEAPOLIS COMMUNITY COLLEGE

is also not properly reflected in the state payroll system. Often the board office, when they enter the payroll, must charge sick leave against the employee's annual leave balance and have, in some cases, reported the leave as regular hours worked.

The college personnel office keeps manual leave records for all college employees. However, for administrators, these manual leave records are also not correct. These leave records are posted from requests for leave submitted by the administrators. However, since these requests for leave are never compared to the time sheets, there are many differences between the two.

Currently, there are no accurate leave records for these employees. The board office will have to assist in reconstructing the necessary records. It is important to maintain accurate employee leave records. By contract, there are certain leave limits which cannot be exceeded. In addition, if employees resign, their annual and sick leave balances determine the amount of severance pay the employee receives.

### RECOMMENDATIONS

- With the assistance of the Community College Board Office, the Minneapolis Community College personnel office should recalculate administrator's leave balances.
- The personnel office should make the necessary entries into the state payroll system to make sure that the leave balances for administrators are accurate.

#### 7. PRIOR FINDING PARTIALLY RESOLVED: Minneapolis Community College has maintained unauthorized change funds.

The Minneapolis Community College bookstore maintains a very large change fund. Generally, \$1,500 in change is kept in the bookstore. During the first two weeks of every quarter, the bookstore manager requests additional cash. This money is obtained for a third bookstore cash register which is used for handing returned items only. A check is written from the auxiliary enterprise account to the bookstore to obtain the additional funds. During winter quarter 1989, \$12,000 was received, with \$7,541 actually used for returns. We believe that the amount of the change fund kept in the bookstore, both routinely and at peak periods, is excessive and should be reevaluated. Excessive balances in the change fund and the return fund increase the risk of funds being taken for unauthorized use and cause a loss of interest income.

In addition, the bookstore change funds, as well as the \$600 business office change fund, are not being considered within the college's authorized imprest cash amount. Minneapolis Community College has an authorized imprest cash account of \$20,000. The change funds have not been authorized by the Department of Finance as required by Minn. Stat. Section 15.191.

## MINNEAPOLIS COMMUNITY COLLEGE

### RECOMMENDATIONS

- Minneapolis Community College should reevaluate the amount needed in the bookstore change fund and maintain the change and return funds at a reasonable level.
- Minneapolis Community College should work with the Department of Finance to obtain the proper authorization for all change funds.

8. PRIOR FINDING NOT RESOLVED: Controls over travel advances issued from the imprest cash account are inadequate.

The Department of Finance requires all travel advances to be settled within 30 days of the travel. We tested 59 travel advances and found that only nine were settled within the required time period. Six advances were outstanding for more than 120 days, the longest remained unpaid for 187 days. The delays in advance settlements places an additional burden on the imprest cash account.

The college has attempted to establish a monitoring schedule to assist in identifying advances that were not being repaid promptly. Based on the aging of advances, those outstanding for more than 30 days are supposed to receive a letter requesting payment. However, this schedule is not completed on a regular basis so all advances are not subject to review each month. The employees need to be reminded of their responsibility to promptly submit expense reports so the reimbursement can be applied to settle the advance.

### RECOMMENDATION

- Minneapolis Community College should pursue the settlement of all travel advances within 30 days.

9. Outstanding checks imprest cash are not written off on an annual basis.

Minneapolis Community College continues to carry outstanding checks as reconciling items of their imprest cash account. According to Minn. Stat. Section 16A.45 and board policies, outstanding checks should be reviewed annually and any checks issued and unredeemed for more than one year should be cancelled. As of March 24, 1989, the college had nine outstanding checks that were older than one year. The oldest was issued in July 1986. By not promptly cancelling outstanding checks, the college is subject to an unnecessary risk of the misuse of funds.

### RECOMMENDATION

- Minneapolis Community College should annually review the unredeemed checks from the imprest cash account and cancel those outstanding for more than one year.

## MINNEAPOLIS COMMUNITY COLLEGE

### 10. Controls over bookstore receipts need improvement.

For fiscal year 1988, the Minneapolis Community College bookstore had total sales of approximately \$1,091,000. Internal controls over bookstore receipts need to be improved in two areas. First, voids are not properly documented. 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 voided transactions from the daily sales total immediately. Currently a void sheet is signed by the cashier who made the error, but it is not always approved by a second bookstore employee. Voids are sensitive transactions because they document the differences between cash recorded and cash deposited. Without proper approval of voids, the possibility exists that unauthorized cash could be obtained from the cash register. Each void should be approved by a second bookstore employee.

In addition, bookstore receipts are not being deposited promptly. Often, receipts are kept in the bookstore until all paperwork is completed. For example, in one case receipts totalling \$26,667 were held for ten days before being deposited. Failure to promptly deposit receipts increases the risk of loss or theft and reduces interest earnings. Receipts exceeding \$250 should be deposited daily, in accordance with applicable board policy.

### RECOMMENDATIONS

- All voided transactions should be adequately documented and approved by a second employee.
- Receipts should be deposited promptly.

### 11. Documentation for bookstore purchases and disbursements needs to be improved.

Bookstore purchase orders are completed at the time items are ordered. For the majority of goods, the purchase orders are computer-generated and are never signed by anyone. An authorizing signature is necessary to ensure that goods and services are purchased for appropriate agency purposes. The bookstore manager should review and sign all purchase orders before items are ordered.

When an invoice is received at the bookstore, it is compared to the purchase order and the receiving report to verify prices and quantities before payment. A pay order authorizing payment is prepared, with supporting documentation attached. The invoice is not cancelled after payment is made. Invoices should be cancelled after payment to prevent them from being paid twice.

## MINNEAPOLIS COMMUNITY COLLEGE

### RECOMMENDATIONS

- The bookstore manager should review and approve all bookstore purchase orders before they are issued.
- All bookstore invoices should be cancelled after payment.

12. The Minneapolis Community College president is using funds from the public information account inappropriately.

According to board policy, each college can use a portion of profits from their auxiliary enterprise activities for public information purposes. Currently, the board puts no limit on the amount of money which may be spent from this account. Minneapolis Community College spent \$6,437 from the public information account during fiscal year 1988. The board policy cites the following as allowable uses of the public information account:

- A. Meals and lodging for visiting committees or other college guests on official business.
- B. Receptions and workshops for guests of the college.
- C. Public relations materials, services, and functions.

In contrast, Minn. Stat. Section 135A.09 allows each college president to have an annual expense allowance, or department head account. According to board policy, each president can spend up to \$2,500 per year "for expenses necessary for the normal performance of duties for which no other reimbursement is provided."

Use of the public information account at Minneapolis Community College has not been limited to public information and guests. The college president has routinely used the public information account, rather than using his department head account. Although the board policy concerning the public information account is broad, we believe that Minneapolis Community College has not used the account appropriately.

### RECOMMENDATION

- Minneapolis Community College should work with the board office to determine which activities should properly be funded from the public information account.

13. Some employees are not following required procedures for obtaining mileage reimbursements.

Some employees at Minneapolis Community College are not following Department of Finance procedures for documenting and submitting employee travel claims. For example, the president has not provided a detailed reporting of locations or odometer readings to support his claimed mileage. He also needs to be more descriptive in stating the purpose of each meeting. Other employees are not submitting expense claims promptly. One employee



## MINNEAPOLIS COMMUNITY COLLEGE

submits one expense claim for the entire year. These claims exceed \$1,000 each and include expenses incurred throughout the year.

Department of Finance operating procedure 06:05:15 establishes the requirements for obtaining employee travel expense reimbursements. The procedure calls for employees to promptly complete the expense report and submit it monthly, unless accumulated expenses are less than \$50. To be eligible for mileage reimbursement, the policy requires detailed reporting of all miles claimed. This includes listing all locations by address or building, and actual odometer readings used to determine these miles. If necessary, a daily travel log should be maintained to supplement the employee expense form.

### RECOMMENDATION

- All Minneapolis Community College employees should follow the established procedures for obtaining travel expense reimbursements, including adequately documenting travel and submitting reimbursement claims promptly.

#### 14. Receiving reports are not used consistently to confirm that goods have been received.

College staff do not always document the receipt of items ordered. Of the items we tested, 20 percent were not supported by a packing slip, receiving report or other evidence. The faculty or staff person who initiated the purchase generally received the incoming goods directly. That person should inspect the goods, compare them to the items and amounts ordered, and forward a signed and dated receiving document to the business office. However, this is not always done. If no evidence of receipt of goods is present when the business office gets the invoice, they will call the purchasing department prior to paying the invoice to obtain a verbal confirmation. However, since the invoice may not be received until weeks after the goods have arrived, any discrepancies may be overlooked, resulting in payments for goods which were not received.

The use of a receiving report or other proof of the receipt of goods is required by Department of Finance operating procedure 06:05:01. The Board Office issued a memo in December 1987 to all business managers instructing them to consistently require proper receiving reports. Receiving reports document that incoming merchandise has been received in good condition and in accordance with ordering specifications. Signatures and dates on packing slips, purchase order copies, or other receiving reports would ensure that only invoices for which goods have been received are paid.

### RECOMMENDATION

- Minneapolis Community College should require receiving reports or alternative reporting documents to verify the receipt of goods.

## MINNEAPOLIS COMMUNITY COLLEGE

### 15. The college is not paying invoices on a timely basis.

In February 1989, the Department of Finance reported that Minneapolis Community College was paying approximately 86 percent of their invoices within 30 days. This payment performance is below the average of all community colleges (89.4 percent) and significantly below the statewide average of 95.8 percent.

Minn. Stat. Section 16A.124, Subd. 3 requires that state agencies "pay the vendor within 30 days following the receipt of the invoice for the completed delivery of the product or service." Subd. 5 provides that a vendor may charge a state agency interest at one and one-half percent per month on late payments. Our testing of expenditures during the audit period indicated that 11 of 40 invoices were not paid within 30 days, as required by statute. For these exceptions, payments were made between a few days to approximately one month late. Late payment of invoices could result in unnecessary interest charges to the state.

#### RECOMMENDATION

- Minneapolis Community College should ensure that invoices are paid within 30 days, as required.

### 16. College contracts are authorized and encumbered after the effective start date of the agreements.

Minneapolis Community College allows work to be performed and financial obligations to be incurred for professional services before contracts are fully authorized and encumbered. The Department of Administration authorizes all agency contracts. The Department of Finance subsequently encumbers agency funds from the authorized contract. Minn. Stat. Section 16A.15, Subd. 3 requires that funds be encumbered prior to obligation by state agencies. If an obligation is incurred before funds are encumbered, the Department of Finance requires the agency to document justification in a letter to the department (referred to as a "Chapter 16A letter") in accordance with operating policy and procedure 06:04:18.

The college executed six contracts in fiscal year 1989. In all six cases, work was started prior to having an authorized contract and funds encumbered. An authorized contract would assist in resolving disagreements about the work performed and offer some protection should disputes arise. We recognize that in certain situations, obligations may be incurred before funds are encumbered. However, the use of Chapter 16A letters should be limited only to unique situations and should not be allowed to become routine.

#### RECOMMENDATION

- Minneapolis Community College should ensure that contracts are authorized and encumbered prior to the effective start date of the contract.

## MINNEAPOLIS COMMUNITY COLLEGE

### 17. PRIOR FINDING PARTIALLY RESOLVED: Deposits with the State Treasurer are not made promptly.

The college business office collects various receipts, including tuition and fees. Although the business office makes a daily deposit of all receipts to a clearing account in a local bank, the funds are not transferred from the local bank to the state depository bank until several days later. Minn. Stat. Section 16A.275 requires that state receipts totaling \$250 or more be deposited with the treasurer daily. Even though the funds have been deposited and are adequately safeguarded, the state does not have access to the funds until received by the depository bank. Our testing showed a lapse of 3 to 10 days between the local deposit and the transfer in 14 of 30 daily deposits tested. The deposit amounts ranged from \$2,000 to \$113,000. Such delays result in lost interest and investment income for the state.

#### RECOMMENDATION

- Minneapolis Community College should make daily transfers to the state treasury depository account.

### 18. PRIOR FINDING NOT RESOLVED: Minneapolis Community College is not adequately safeguarding its fixed assets.

Since our last audit report issued in January 1988, Minneapolis Community College has taken some initial steps to start controlling their fixed assets. However, the process has not been completed and the college's assets continue to be vulnerable to theft and the associated records are subject to errors.

The college assigned the responsibility for maintaining fixed asset records and updating the fixed asset record management system (FARMS) to an employee in the physical plant division. However, that employee is currently on an extended leave and the fixed asset responsibilities have not been reassigned. A physical inventory of all buildings on campus was completed in November 1988. However, the inventory has not been compared to FARMS. Therefore, the accuracy of the inventory has not been determined and any corresponding adjustments to FARMS have not been completed.

The college has the responsibility to coordinate the management of the assets in their possession. This includes developing controls to provide for physical security of assets and for the protection against loss from intentional and unintentional errors in processing transactions. By instituting a system to safeguard assets, the college would have assurance that their assets are being protected.

#### RECOMMENDATIONS

- Minneapolis Community College should compare the physical inventory with FARMS and make any necessary corrections to the system.

## MINNEAPOLIS COMMUNITY COLLEGE

- Minneapolis Community College should train a second employee to use FARMS so the college's fixed asset records can be current and promptly updated for any changes.



1501 Hennepin Avenue  
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June 20, 1989

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

Dear Ms. Leifeld:

This letter is our formal written response to the comments and recommendations for the financial and compliance audit for the period from July 1, 1986 through December 31, 1988.

**Recommendation 1: Interest earned on the federal funds in the financial aid checking account was used for an unauthorized purpose.**

This finding was previously written up by the Department of Education, Office of the Inspector General, Audit Services. At that time the audit finding included the statement that the interest was used in accordance with information received from the Minnesota Community College System Office, from the Vice Chancellor. We were unaware that in 1986 the Public Law was changed to exclude use of federal funds for purposes other than the Title IV programs. A response to this finding was given on 4/11/89 which stated that the amount of interest earned over the period July 1, 1986 through June 30, 1988 (\$13,566) would be deposited to the Perkin's program account by April 28, 1989. This was done by Henry Stevens, Business Officer.

**Recommendation 2: Prior finding not resolved: Excessive federal cash balances are maintained in the student financial aid checking account.**

It has been extremely difficult to maintain a cash balance that is appropriate. Minneapolis Financial Aid was under a restriction in 87-88 that did not allow electronic draw downs. We had to write specific requests to the Department of Education and sometimes waited several weeks for money to arrive. We also must have cash available for requests from the grant accountant at the board office. We have not had excess campus reserve funds to use. All these factors have contributed to excess cash being held at the college. We have been unwilling to penalize financial aid recipients because of these circumstances.

We will limit federal cash requests to actual, immediate needs for one week period. This will begin June 15 and will be implemented by Henry Stevens, Business Officer.

T H E C I T Y C O L L E G E

MCC adheres to the requirements of affirmative action/equal opportunity/Title IX/PL504.

**Recommendation 3: Prior finding not resolved: Unawarded grant checks are not being returned on a timely basis.**

As of July 1, 1989 the MHECB regulations will be changed. Schools will now be given 45 days to return the roster and unawarded checks.

The financial aid office under the direction of Bob Moeller will return the roster to the business office 30 days from when the academic term begins.

Henry Stevens will supervise the return of the roster and unawarded checks to MHECB so that they are received within the 45 day limit, beginning July 1, 1989.

**Recommendation 4: An adequate separation of duties does not exist over the college work study program.**

The person processing the workstudy payroll is no longer being funded through that program. As of July 1, 1989 processing of the student payroll, including summarizing time sheets and preparing the OpSCAN sheets will be done by a staff member independent of the person doing payroll verification and record keeping. Signatures for the OpSCAN sheet will be obtained by Phyllis Bigbee, student payroll supervisor. Josephine Reed-Taylor, Dean of Students will be responsible for implementation.

**Recommendation 5: Minneapolis Community College does not review the biweekly certification reports for classified employees.**

The need to review the certification reports was brought to our attention by this audit. As of April 15, 1989 this procedure was put in place by Ruth O'Dell, Personnel Designee.

**Recommendation 6: Leave records for certain Minneapolis Community College employees are inadequate.**

We are in the process of implementing a procedure for administrators to submit their timesheets and leave slips together, as other employees do, to eliminate discrepancies between timesheets and leave slips. The administrative leave records are being reconciled with time sheets and leave records to correct them to date. Corrected leave totals will then be entered into the Community College System. This process will be completed by Ruth O'Dell on September 1, 1989.

**Recommendation 7: Prior finding partially resolved: Minneapolis Community College has maintained unauthorized change funds.**

The Minneapolis Community College Bookstore will reduce the size of their change fund to \$750 which is the average amount of five community colleges in the metro area. The \$12,000 used for returns during the first two weeks of the quarter will be reduced to \$3,000. Sharon Nelson, Bookstore Manager, will be responsible for seeing that this is accomplished as of July 1, 1989.

Concerning the Bookstore change fund not having been authorized by the Department of Finance, I have referred this finding to the Community College System Office for clarification and they will follow up on the resolution of this issue per Glenn Wood, Director of Fiscal Services.

**Recommendation 8: Prior finding not resolved: Controls over travel advances issued from the imprest cash account are inadequate.**

The monitoring schedule previously established will be completed every month and letters will be sent requesting payment for all outstanding advances over 30 days. Employees will be notified that requests for advances will be forwarded to the Department of Finance for payment when ever possible. Henry Stevens will be responsible for pursuing settlement of advances as of June 30, 1989.

**Recommendation 9: Outstanding checks from imprest cash are not written off on an annual basis.**

Unredeemed checks from the imprest cash account will be reviewed annually and those more than one year old will be cancelled. Henry Stevens will be responsible for this review. For 1988-89 the review was completed on May 9, 1989.

**Recommendation 10: Controls over bookstore receipts need improvement.**

As of May 9, 1989 all voids in the bookstore are being reviewed by Sharon Nelson, the Bookstore Manager or her designee. Two signatures will accompany each void.

Receipts from the Bookstore are being deposited daily as of May 9, 1989 per Sharon Nelson.

**Recommendation 11: Documentation for Bookstore purchases and disbursements needs to be improved.**

As of May 9, 1989 all purchase orders are initialed and dated and all invoices stamped paid and initialed by Sharon Nelson.

**Recommendation 12: The Minneapolis Community College president is using funds from the public information account inappropriately.**

Margaret A. Kircher, Director of Institutional Services, will work with the community college system office to determine if MCC has interpreted the Public Information account system policy inappropriately. As of May 31, 1989 the business office has been asked to bring to the Director of Institutional Services' attention any questions concerning the appropriate funding source for Public Information and Department Head account requisitions.

**Recommendation 13: Some employees are not following required procedures for obtaining mileage reimbursements.**

All employees have been informed that they must submit travel reimbursements in a timely manner, once a month. The employee referred to, submitted a reimbursement at the end of March, 1989 and will submit any future reimbursements monthly. Henry Stevens will be responsible for monitoring late claims for reimbursement.

All travel claims submitted by community college system presidents are reviewed by Glenn Wood, Director of Fiscal Services. This part of the recommendation has system wide implications for all presidents, so Margaret A. Kircher has referred this to the system office for clarification.

**Recommendation 14: Receiving reports are not used consistently to confirm that goods have been received.**

Henry Stevens, business officer, will be responsible for obtaining the required receiving reports for all merchandise under \$500. MCC is setting up a new receiving system where all merchandise will be received by the business office or the maintenance department. The merchandise will be verified at one of the two locations. This system will be put into place as of July 1, 1989.

**Recommendation 15: The College is not paying invoices on a timely basis.**

As of April, 1989 MCC's invoice payment percentage rate was 96.97% which was 2.37% higher than the community college system average and 1.27% higher than the statewide average. In May MCC's invoice payment percentage was 97.16%. Henry Stevens is responsible for seeing that all invoices are paid within 30 days.

**Recommendation 16: College contracts are authorized and encumbered after the effective start date of the agreements.**

Henry Stevens will hold contract meetings with administrators on campus who are in charge of preparing various contracts for their departments. They will be informed again of the rules pertaining to contract authorization and encumbrance. As of July 1, 1989, no work will be allowed to be performed until all contracts have been finalized.

**Recommendation 17: Prior finding partially resolved: deposits with the State Treasurer are not made promptly.**

All state treasury deposits are being made daily as of May 31, 1989. Henry Stevens is responsible for seeing that this procedure is continued.

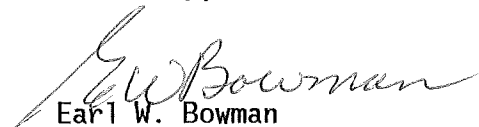


**Recommendation 18: Prior finding not resolved: Minneapolis Community College is not adequately safeguarding its fixed assets.**

The plant maintenance department has trained two individuals to enter data on the Farms system. Since those trainings both people have been unable to continue working for maintenance. MCC is continuing to work with Materials Management to reconcile Farms records with college inventory records. Roger Virchow, Building Maintenance Supervisor is responsible to continue this ongoing task.

In conclusion, I wish to thank you for your efforts in bringing these findings to our attention. If you have need of further clarification regarding our responses please contact me.

Sincerely,

  
Earl W. Bowman  
President

EWB:msh

cc: Neil Christenson  
Josephine Reed-Taylor  
Jim Harris  
Glenn Wood  
Henry Stevens  
Margaret A. Kircher