COMMUNITY COLLEGE SYSTEM OFFICE
FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989

AUGUST 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-53

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

COMMUNITY COLLEGE SYSTEM OFFICE

FINANCIAL AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1989

Public Release Date: August 17, 1990 No. 90-53

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Systemwide tax sheltered annuity program, systemwide repair and replacement disbursements, travel disbursements, supplies and fixed asset disbursements, employee payroll, and imprest cash.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found eight areas where the internal control structure needed improvement:

- The Community College System has an early retirement plan which has questionable objectives.
- The Community College System needs to establish a process to ensure that employee settlements are reasonable.
- Public information account spending is not properly controlled.
- The system office is not adequately monitoring the use of its repair and replacement funds appropriation.
- The chancellor is not following required procedures for obtaining mileage reimbursements.
- Faculty funded by the Bush Grant did not follow proper travel procedures.
- Control over accounting for computer equipment inventory should be improved.
- Duties over computer operations are not adequately separated.

We reported one area where the system office had not complied with finance-related legal provisions:

- A Worthington Community College instructor obtained mileage reimbursement for commuting between his residence and the college.

Contact the Financial Audit Division for additional information.
(612) 296-1730

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

Mr. Clarence Harris, President
Community College Board

Members of the Community College Board

Dr. Gerald Christenson, Chancellor
Community College System

Audit Scope

We have conducted a financial related audit of the Community College System Office as of and for the two years ending June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Community College System Office, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Community College System Office, in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the Community College System Office are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Community College System Office's compliance with certain provisions of laws, regulations, contracts, and grants. Our objective was not to provide an opinion on overall compliance with such provisions. The Community College System is currently working with the Attorney General to determine the legal authority of the Minnesota Rules Chapter 8450, State Board for Community Colleges Policies and Regulations. Because of this uncertainty, we did not test for compliance with those provisions.

Management Responsibilities

The management of the Community College System Office is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- systemwide tax sheltered annuity program,
- systemwide repair and replacement disbursements,
- travel disbursements,
- supplies and fixed asset disbursements,
- employee payroll,
- imprest cash transactions,
- systemwide Perkins Loan repayment collections, and
- systemwide student payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We assessed control risk over federal financial aid as part of our Statewide Audit of the State of Minnesota's annual financial statements and federal programs. The results of our risk assessment of the systemwide Perkins Loan repayment and student payroll systems are contained in the Community College System management letter for the year ended June 30, 1989, dated April 23, 1990.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 to 9, involving the internal control structure of the Community College System Office. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Community College System Office at the exit conference held on May 7, 1990.

The results of our tests indicate the following instances of noncompliance with the provisions referred to in the audit scope. First, Chancellor Gerald Christenson received a total of $8,000 in car allowances during fiscal years 1988 and 1989. The Commissioner of Employee Relations ruled that this was not an allowable form of compensation. The Community College Board continues to believe that it had the authority to provide the Chancellor with a car allowance. However, because of the difference of opinion, in late 1989, the Chancellor repaid the car allowance to the state.

In addition, we noted three instances of noncompliance with applicable federal regulations during our 1988 and 1989 audits of federal financial aid. First, the system office maintained excessive cash balances in the federal college work study account. Second, they did not assess late charges on certain Perkins Loans, as required. Finally, the system office did not have an approved affirmative action plan for fiscal year 1988. These instances of noncompliance are discussed in more detail in the management letters to the Community College System for the year ended June 30, 1989 and the year ended June 30, 1988, dated April 23, 1990 and March 3, 1989, respectively.

Except for the issues discussed in the preceding paragraphs and in finding 5, with respect to the items tested, the Community College System Office complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Community College System Office had not complied, in all material respects, with those provisions.

Pursuant to Minn. Stat. Section 3.975, finding 5 has been referred to the Attorney General. The Attorney General has the responsibility to ensure the recovery of state funds and in fulfilling that role may negotiate the propriety of individual claims.

This report is intended for the information of the Legislative Audit Commission and management of the Community College System Office. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 17, 1990.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 23, 1990

REPORT SIGNED ON: August 9, 1990

COMMUNITY COLLEGE SYSTEM OFFICE

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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
Alan Finlayson, CPA	Auditor-in-Charge
Rhonda Regnier, CPA	Auditor
Beth Hammer, CPA	Auditor
Susan Rumpca	Auditor

EXIT CONFERENCE

The findings and recommendations included in this report were discussed with the following staff of the Community College System Office at the exit conference held on May 7, 1990:

Gerald Christenson	Chancellor
Neil Christenson	Deputy Chancellor
Ann Weyandt	Asst. to the Deputy Chancellor
Bernadine Bryant	Director of Employee Relations
Elaine Stump	Payroll Supervisor
Glenn Wood	Director of Fiscal Services
Scott Erickson	Asst. Director of Fiscal Services
Larry Maroney	Accountant
Jim Harris	Internal Auditor

I. INTRODUCTION

The Minnesota Community College System Office is the central administrative office for the eighteen community colleges. The system is governed by a nine member board. Board members are appointed by the Governor and confirmed by the senate. The chancellor is appointed by the board, and serves as the chief executive officer of the Community College System. Dr. Gerald Christenson has served as chancellor since July 1, 1983.

The system office prepares the systemwide budget requests and, with the approval of the Community College Board, determines the allocations to the individual colleges. The system office processes most payroll and disbursement transactions. They also administer certain programs on behalf of the entire system. These include the tax sheltered annuity program, the repair and replacement appropriation, worker's and unemployment compensation, the student payroll system, the Perkins Loan repayment system, and staff development expenditures.

During the fiscal years 1988 and 1989, the system office disbursed $5.5 and $6.5 million, respectively, for its operations. Payroll was the largest category, comprising 58 percent of the expenditures. Other significant categories include supplies, fixed assets, repairs, and travel.

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. <u>The Community College System has an early retirement plan which has questionable objectives</u>.

The Community College System has a severance pay plan for administrators which includes questionable early retirement incentives. It encourages administrators to retire early by payment of a large lump sum benefit. However, the system still values their expertise and often hires the retired administrators back as paid consultants.

According to Community College System policy VI.09.05, administrators with 15 years of service may receive early retirement incentives at age 55. The maximum amount is one year's salary, and it decreases 20 percent each year from age 61 until age 65. The policy also provides for payment of unused vacation hours and a percentage of unused sick leave. The early retirement incentive policy has been in place since 1982.

The early retirement portion of the severance pay plan was originally patterned after a similar clause contained in the bargaining agreement with the Minnesota Community College Faculty Association. However, that contract contains a clause requiring applicants to show that the early retirement payment would "prevent a layoff, allow the recall of a laid off faculty member and/or would result in a cost savings to the state." Such a provision is not included in the policy for administrators.

Retiring administrators throughout the Community College System routinely take advantage of the early retirement policy. For example, three former administrators of the system office received a total of $234,955 in severance pay during fiscal years 1988 and 1989. The severance pay consisted of early retirement incentives, a portion of unused sick leave, and unused vacation hours. Two of the administrators returned after their retirements to become paid consultants for the Community College System. Two other former administrators served as consultants during fiscal years 1988 and 1989 after receiving early retirement incentives.

> In one case, the administrator retired in June 1989. His salary at the date of retirement was $85,000. He received a payment totalling $103,678 which consisted of $68,000 in early retirement incentives, $24,117 of unused sick leave, and $11,562 in unused vacation. In November 1989, he returned as a consultant to "provide consultive assistance . . . in the implementation of a variety of personnel and human resource projects." The exact nature of these projects was not stated in the contract.
>
> In another case, the administrator retired at age 62 from his position. His salary at the time of retirement was $58,583. He received a payment of $59,180, which included $35,150 in early retirement incentives, $16,398 in unused sick leave, and $7,632 of unused

vacation. The Community College System rehired the administrator as a consultant after his retirement. His consultant contracts included a study of part-time faculty, work to promote community college volunteering, and a variety of other projects.

In a third case, the administrator retired in July 1987. He received a payment of $72,096 consisting of $53,814 (one year's salary) in early retirement incentives, $14,777 in unused sick leave, and $3,505 in unused vacation.

We believe the system's early retirement incentive policy may not serve the best interests of the state and should be reevaluated. Recent legislative action provides benefits for employees retiring early, which did not exist when the policy began. The Minn. Laws 1989, Chapter 319, Article 13, Section 58 allows community college faculty and administrators who have attained age plus service totaling 90 years to receive full retirement benefits. Previously, employees could not retire before age 60 without losing one-half of their benefits.

We also believe that Community College System needs to ensure that all consultant contracts with former employees cite specific projects and work products. Providing detailed contract provisions would protect both the Community College System and the consultant.

RECOMMENDATIONS

- **The Community College Board should reevaluate its practice of paying early retirement incentives to retiring administrators.**

- **The Community College System should ensure that all consultant contracts contain specific duties.**

2. The Community College System needs to establish a process to ensure that employee settlements are reasonable.

During fiscal years 1988 and 1989, the Community College System made settlements with employees without demonstrating that the settlements were in the best interest of the state. The System Office spent $181,733 to settle grievances during fiscal year 1988. This represented over five percent of their total payroll costs for that year. It paid $103,571 to two individuals to resolve employment issues. However, neither of the individuals had filed a formal grievance at the time of the settlement. Although the chancellor has the authority to settle employee grievances, he is also responsible for protecting the state's interests. In our opinion, the Community College System did not demonstrate that these settlements were in the best interests of the state.

During fiscal years 1988 and 1989, the Community College System settled several grievances under $5000. However, they also internally settled two large cases during those years before either employee took any formal action against the system. We believe these settlements may have been premature. We saw no evidence that they sought the assistance of labor relations experts in the Department of Employee Relations or the Attorney General's Office in negotiating these settlements or that they seriously challenged the employees' claims.

In one case, the Community College System paid a college president $55,000 in exchange for the president's resignation. According to the relevant Community College Board policy, the Board may terminate any college president on the advice of the chancellor. We were told that the chancellor discussed the termination with each board member, although the board never took any formal action. The president received one year's pay, plus an amount for health and dental insurance. The settlement document was signed on January 26, 1987. The president resigned effective June 30, 1987.

The settlement agreement was signed by the college president and a Community College System vice chancellor. Although the Attorney General's Office reviewed the agreement for form and content, we were told that the Attorney General's Office was not actively involved in the settlement negotiations.

In another case, a faculty member signed a settlement agreement and received $28,178. This agreement was signed only by the Community College System Office director of personnel and the faculty member. The faculty member also was not required to return $20,394 in salary he received while on a sabbatical leave during fiscal year 1987. According to the bargaining agreement with the Minnesota Community College Faculty Association, faculty members must either return to work for at least one year after a sabbatical leave or repay the salary paid during the sabbatical leave. The Community College Board may waive this requirement. However, the issue was never brought before the Board.

Grievance settlements are a large commitment of resources. The Community College System needs to establish a formal process to ensure that all employee settlements are reasonable, necessary, and in the best interest of the state.

RECOMMENDATION

- **The Community College System needs to take sufficient action to ensure that all employment settlements are in the best interest of the state. This action should at least include labor relations specialists in the Department of Employee Relations or the Attorney General's Office in settlement negotiations.**

3. Public information account spending is not properly controlled.

The Community College System does not properly monitor and control public information disbursements. Board policy V.01.02 allows each community college to establish a public information account. According to the policy and system office officials, most public information funds come from transfers of profits from auxiliary enterprises, such as the bookstore and food service.

The differences, if any, between the public information account and the president's department head expense allowance (or expense allowance) are not clear. Minn. Stat. Section 135A.09 allows the Community College Board to establish an expense allowance for the chancellor and each college president. According to Department of Finance policy 06:05:27, the department head expense account "permits the payment of expenses necessary to the assigned duties and responsibilities of the department head" including meals and related expenses. Similarly, the board policy states that the public information account can be used for the following purposes:

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.

The uses of the public information account are broad and, in some respects, very similar to the uses of the presidents' expense allowance. In fact, we were told that provosts, who are not eligible for the expense allowance, use the public information account for disbursements ordinarily paid from department head.

In addition, the Community College Board does not control the amount which can be spent through a public information account. Rather, each college president or provost determines the extent of public information spending each year. Some presidents have spent $6,000 to $8,300 annually through public information. This is in contrast with the president's expense allowance which, in accordance with Minn. Stat. Section 135A.09, has been limited by the Community College Board to $2,500 per year.

Finally, the amounts expended from public information accounts have not been included in the report required by Minn. Stat. Section 135A.09. This statute states that "each board shall report the [expense] allowances and expenditures annually to the chairs of the house appropriations and senate finance committees, and to the commissioner of finance." The system office reported presidents' expense allowance disbursements of $10,919 for fiscal year 1988. For the same year, according to system office documents, the community college presidents and provosts spent $60,216 from public information accounts. At the time of our audit, the system office had not yet prepared the fiscal year 1989 report. However, according to the statewide accounting system and system office records, expense allowance disbursements and public information spending for fiscal year 1989 were $12,657 and $75,668, respectively.

RECOMMENDATIONS

- **The Community College Board should more clearly define the uses of the public information account.**
- **The Community College Board should determine limits to the extent of spending though public information.**
- **The Community College System should include all disbursements made through public information accounts in the report required by Minn. Stat. Section 135A.09.**

4. The system office is not adequately monitoring the use of its repair and replacement funds appropriation.

The system office does not have a repair and replacement policy and does not monitor repair and replacement expenditures made by the colleges. Minn. Laws 1987, Chapter 401, Section 4, subd. 2, provided a $1,085,000 repairs and replacements appropriation for each of fiscal years 1988 and 1989. The Community College Board allocates the appropriation to the colleges based on a formula. Although system office staff maintain a list of outstanding campus repair projects, they do not require the colleges to spend their allocations on certain projects.

The appropriation law does not define the use of repair funds, and the Community College System has not developed a policy regulating the use of these funds. As a result, we used the Department of Finance capital budget instructions definition of repair and replacements as our criteria. These instructions refer to repair and replacement as "predictable, recurring expenditures involved in the maintenance of facilities." The instructions specifically exclude expenditures for building improvements, expansion, or new construction from the definition of repairs and replacements. During fiscal years 1988 and 1989, $123,200 of repair expenditures from the appropriation did not meet this definition. This includes payments for new construction as well as several furniture and equipment purchases. Although system office staff enter all payments into the statewide accounting system, they do not verify that disbursements from the repair and replacement appropriation are proper.

The system office and the colleges have identified $16,300,000 of unfunded repair and replacement projects. This large amount further emphasizes the need for strong controls over the repair and replacement appropriation. We believe the system office needs to take a more active role in monitoring the use of funds. This includes developing a policy regarding the use of funds, and ensuring the funds are spent on identified projects.

RECOMMENDATIONS

- **The system office should establish a formal policy which clearly defines use of repair and replacement funds.**

RECOMMENDATIONS (Continued)

- **The system office should take an active role in monitoring the repair and replacement projects at the colleges to ensure funds are used properly.**

5. <u>A Worthington Community College instructor obtained mileage reimbursement for commuting between his residence and the college</u>.

A Worthington Community College instructor was incorrectly reimbursed for mileage between his residence and the community college. Minn. Stat. Section 16B.55, Subd. 4 states:

> No state employee shall be compensated by the state for use of a personal vehicle for travel between the employee's residence and the state work station to which the employee is permanently assigned, except pursuant to a collective bargaining agreement negotiated under chapter 179 or a compensation plan adopted by the commissioner of employee relations under section 43A.05.

The employee was covered under the Commissioner's Plan, and that plan does not allow for reimbursement of commute miles. The employee was reimbursed $885 from December 1987 through May 1989 for mileage from his personal residence in Ellsworth, Minnesota to Worthington Community College.

We consider reimbursement for commute miles to be a form of compensation, which is disallowed. Upon learning of this practice in July 1989, the system office instructed Worthington Community College to discontinue the reimbursements. However, it did not seek reimbursement from the employee. Since the reimbursement for commuting mileage was not allowable, the instructor should repay the state.

RECOMMENDATION

- **The Community College System should seek reimbursement of $885 from the instructor.**

6. <u>The chancellor is not following required procedures for obtaining mileage reimbursements</u>.

The chancellor is not following Department of Finance procedures for documenting and submitting employee travel claims. For example, the chancellor has not provided detail of locations or odometer readings to support his claimed mileage. He also does not always state the purpose of his travel and meetings, as required.

Department of Finance operating procedure 06:05:15 establishes the requirements for obtaining employee travel expense reimbursements. 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 reading used to determine these miles. If necessary, a daily travel log should be maintained to supplement the employee expense report.

During fiscal years 1988 and 1989, the chancellor was paid approximately $1,200 each year in mileage reimbursements for travel in the metropolitan area and statewide. His employee expense reports for mileage and parking reimbursement did not specify the purpose of the trip nor the destination. We do not dispute the legitimacy of the mileage claims. However, additional details are needed on the chancellor's expense reports to document that reimbursement is for business-related travel expenses.

RECOMMENDATION

- **The chancellor should follow the established procedures for obtaining travel expense reimbursements, including adequately documenting travel.**

7. Faculty funded by the Bush Grant did not follow proper travel procedures.

Faculty traveling through funds provided by the Bush Grant did not comply with required travel procedures in two areas. First, they did not complete the required out-of-state travel authorization forms. Finance operating procedure 06:05:15 requires the completion of an out-of-state travel authorization form for all out-of-state trips. The authorization form includes an estimate of all costs, the name and location of the event to be attended, and the reason(s) the trip is necessary. The faculty did not complete the required authorization form for seven of ten out-of-state trips tested. Prior authorization ensures that the trip is for a valid business purpose and that all costs relating to the trip have been considered.

In addition, they did not settle their travel advances in a timely manner. During fiscal years 1988 and 1989, advances totalling $14,579 were not settled timely. Department of Finance operating procedure 06:05:14 requires settlement of travel advances by the fifth working day after the last day of travel. Six of eight travel advances tested were not settled timely. Employees settle advances by submitting expense reports. The employee receives or pays the difference between the expense report and the advance. Without the expense report, the system office cannot ensure proper use of funds. Finance operating procedure 06:05:14 allows agencies to deduct unsettled advances from an individual's payroll check or deny future advances.

RECOMMENDATIONS

- **The system office should require an approved out-of-state travel authorization form to be on file before any advances or reimbursements are made for the trip.**

RECOMMENDATIONS (Continued)

- **The system office should monitor any outstanding travel advances to ensure that travel advance settlements are made within five days after the completion of the trip.**

8. Control over accounting for computer equipment inventory should be improved.

Control and recordkeeping for the computer equipment inventory are weak in two areas. First, duties concerning the computer inventory are not adequately separated. An employee with access to the inventory takes the physical counts and updates the computer center records. Good internal control requires separate employees take the physical inventory counts, maintain custody of assets, and keep records. Under the present system, intentional or unintentional errors could be concealed, since those in charge of inventory maintain records and conduct the physical counts. To ensure the integrity of the records, someone independent of the custody function needs to update records and participate in physical counts.

In addition, the computer center maintains its own inventory records. The system office fiscal services division does also document assets over $500 on the statewide Fixed Asset Records Management System (FARMS). However, the system office has not consistently updated FARMS. The computer center completed an inventory count of system office assets, and updated its records in August 1989.

RECOMMENDATIONS

- **The system office should separate duties over custody of fixed assets and related recordkeeping.** Someone independent of these functions should participate in the physical counts.

- **The system office should update its fixed assets records timely.**

9. Duties over computer operations are not adequately separated.

One employee in the computer center could make unauthorized changes to computer programs. The Community College System maintains several computer programs which operate independently from the statewide accounting system. Once theses programs are placed into operation, they are responsibility of the production control supervisor. Since the system office does not monitor programming changes, this person could alter programs and avoid detection.

Good internal control requires a record of all programming changes. This ensures prompt detection of any unauthorized changes. The Community College System has software which can log all programming changes. However, they do not use it in order to save operating costs. We believe that the Community College System must ensure that all updates are proper in order to adequately control computer operations.

RECOMMENDATION

- The Community College System should ensure that no unauthorized programming changes could occur.

Minnesota
Community Colleges

Office of the Chancellor
203 Capitol Square Building
550 Cedar Street
St. Paul, Minnesota 55101
612/296-3990

August 3, 1990

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Attached please find the response of the Minnesota Community College System to the findings and recommendations contained in the audit report recently prepared by your office. Staff have provided responses to the findings and recommendations and have established deadlines for addressing these issues. We will comply with the regular reporting required as part of the audit process.

If you or members of your staff have any questions regarding this response, please contact Deputy Chancellor Neil Christenson at 297-4614.

Sincerely,

Gerald W. Christenson

Gerald W. Christenson
Chancellor

Attachment

GWC/AUDT.LTR/TXTDCHSE

FINDING #1

The Community College System has an early retirement plan which has questionable objectives.

Recommendations

A. The Community College Board should reevaluate its practice of paying early retirement incentives to retiring administrators.

B. The Community College System should ensure that all consultant contracts contain specific duties.

MCCS Response

Response to Recommendation A:

The Minnesota Legislature has long recognized the unique nature and the complexity of employee relations for faculty members and administrators in both the State University System and the State Community College System. There are clear differences between the operation of large higher education systems and other state agencies. This was demonstrated as recently as the 1990 Legislative session. Chapter 591, Article 2, Section 6 of the laws of 1990 encouraged the early retirement of certain state employees by providing that those who were over age 55 and had 25 years of state government service could elect retirement and have their health insurance paid by the state to age 65. In approving that early retirement incentive for state employees, the Legislature excluded faculty members and administrators in both the State University and Community College systems from participation because of their separate plans.

Early separation is a part of the compensation and benefit plans and an important benefit for unclassified administrators and faculty. The faculty, through their collective bargaining agreement, have had an early separation clause since 1981. In 1982, in view of the fact that the faculty had this incentive, and because of the need to effect administrative reductions at a time of declining enrollment and reduced level of state appropriations, the Community College Board extended the early separation policy to unclassified administrators. The early separation provision for administrators is a complex matter that is interrelated with the Board's responsibilities for affirmative action hiring, effective administration and organization of the colleges, the ensuring of equitable treatment of both faculty members and administrators and the rights and responsibilities of administrators. Abolition of this policy would cause serious problems in morale and could lead to abrupt staff changes in key positions, as eligible administrators would almost certainly utilize this benefit prior to any action to discontinue.

The Community College Board reviews and approves all modifications to the administrative pay and benefit plan every two years. In addition, these modifications are submitted to and approved by the Department of Employee Relations.

The State Board for Community Colleges will review and consider the recommendations contained in the report.

Person responsible for Implementation: Bernardine Bryant, Director of Human Resources.

Date: June 30, 1991

Response to Recommendation B:

The Minnesota Community College System agrees that all consultant contracts should contain specific duties and will ensure that they do.

The Minnesota Community College System practice of hiring retired administrators and faculty as consultants on a selective basis has been effective and has the following advantages:

- Selected retired employees have knowledge and expertise of the System not otherwise available.
- There is significant cost benefit to the System and the State of Minnesota since contracting with outside consultants would require much more consultant time.
- The amount of each contract is relatively minimal since the retirees do not accept payment beyond the limitation set in their respective retirement plans.
- The rate of pay for retiree contract services is less than the pay that would be earned by a System employee doing those services and there are no fringe benefit obligations to the State.
- The quality of the services provided by retirees has been very high.

In the first case cited in the report, the contract was intended to be specific. It covered a thirteen-month timeframe and specified major duties which included implementation of the negotiated faculty contract and preparation and implementation of the administrative pay and benefit plan for 1989-91. The unspecified balance of the assignment was devoted to resolving a fiscal and personnel problem at one of the colleges. Total compensation for the entire contract was not to exceed $9,720.

The four projects assigned to the second retired administrator cited in the report were also specific:

1. Phased Retirement project: Contractor shall investigate and analyze related policies and procedures from various educational systems; make recommendations to System staff.
2. Degree Substitutes: Investigate and provide recommendations to System staff regarding the applicability of "degree substitutes" (CPA, etc.) to the faculty salary schedule.
3. Volunteerism: Identify, coordinate and promote community service volunteer programs for community college students; inform System and college staffs of such programs; apprise System and colleges staffs of grant funding opportunities.

4. Study the practice wherein colleges use certain high school teachers to provide instruction in college credit courses taught on-site at high schools; make recommendations for System policies and procedures.

Work products have been developed for the projects completed to date and will be completed for future projects.

Person Responsible for Implementation: Neil Christenson, Deputy Chancellor.

Date: September 1, 1990

FINDING #2

The Community College System needs to establish a process to ensure that employee settlements are reasonable.

Recommendation

The Community College System needs to take sufficient action to ensure that all employment settlements are in the best interest of the state. This action should at least include labor relations specialists in the Department of Employee Relations or the Attorney General's office in settlement negotiations.

MCCS Response

The Minnesota Community College System has a close working relationship with the labor relations specialists in the Department of Employee Relations and the Attorney General's Office and it is normal practice to seek advice and input on employee settlements.

In some instances an administrative decision is made to remove an employee and it is more cost effective and productive to negotiate a resolution prior to taking formal action and dealing with the subsequent employee grievance.

In the case of the separation payment to a community college president in exchange for the president's resignation, it should be noted that the Community College Board takes formal action on dismissals but does not act on resignations (Board Policy VI.09.04-05 Resignation or Retirement of Administrator and Board Policy VI.09.06 Termination of...College Presidents). As such, the Board was not required to take action. However, because failure to submit a resignation would have initiated dismissal proceedings, all Board members were contacted individually regarding the proposed settlement. The members concurred with the settlement prior to the administrative action.

The vice chancellor who negotiated the separation with the president did consult the Attorney General's staff with respect to the form and substance of the settlement document. We agree that it is prudent to involve the Department of Employee Relations or the Attorney General in finalizing the settlement terms and amount, but feel that it is not always in the best interest of the state to immediately formalize negotiations and risk exposure to litigation if a fair and reasonable settlement can be achieved without acrimony or public conflict. It is probable that interjecting representatives from the Department of Employee Relations or the Attorney General's office into the negotiations in this case would have resulted in litigation with the risk of significant court and settlement costs. It is our sincere belief that this settlement was in the best interest of the state, the system and the college.

In the case of the faculty member referred to in the report, it was the professional judgement of the college administration that the individual was unable to function in the classroom and needed to be removed for the benefit of students. The Department of Employee Relations and the Minnesota Community College Faculty Association were consulted; it was determined that a settlement would be in the best interest of the state and would result in a cost savings for the college. The faculty member was 53 years old and a 20-year employee of the Minnesota Community College System. System Office staff believed that if a settlement was not agreed to the faculty member would have taken a medical disability leave and would have applied for early separation upon becoming eligible. Had this happened, the total cost would have exceeded the settlement agreed to by the faculty member.

Failure to obtain Board permission on the sabbatical waiver was an oversight that occurred during a change in personnel in the system office. Care will be exercised to ensure that this does not happen again.

The Minnesota Community College System will ensure that all employment settlements are in the best interests of the state and will include the signature of either a representative of the Department of Employee Relations or the Attorney General's office as appropriate. Any employment issue that requires Board action will be presented to the Board for approval prior to such action being taken.

Person Responsible for Implementation: Bernardine Bryant, Director of Human Resources.

Date: September 1, 1990

FINDING #3

Public information account spending is not properly controlled.

Recommendations

A. The Community College Board should more clearly define the uses of the public information account.

B. The Community College Board should determine limits to the extent of spending through public information.

C. The Community College System should include all disbursements made through public information accounts in the report required by Minn. Stat. Section 135A.09.

MCCS Response

Response to Recommendations A & B

Revised policies for the Department Head Expense Accounts and the Public Information Account were approved by the Community College Board on June 28, 1990. These recommendations are being implemented.

Response to Recommendation C

We do not agree that these expenditures are included under Minn. Stat. Section 135A.09. An attorney general's opinion will be requested.

Person Responsible for Implementation: Glenn Wood, Director of Fiscal Services.

Date: October 1, 1990

FINDING #4

The system office is not adequately monitoring the use of its repair and replacement funds appropriation.

Recommendations

A. The system office should establish a formal policy which clearly defines use of repair and replacement funds.

B. The system office should take an active role in monitoring the repair and replacement projects at the colleges to ensure funds are used properly.

MCCS Response

Response to Recommendations A & B

The 1987 appropriations bill was the first to use the new term "repair and replacement." Until this point, the common reference was "repair and betterment." The change was largely the result of an initiative by the Department of Finance to more clearly delineate repair and betterment funding in the appropriations process from capital improvements in the bonding bill. While the new term was adopted in the appropriations bill, there remained considerable question as to the adequacy of definitions for various aspects of facility repairs and improvements.

It is accurate that the system does not have a separate policy on repair and replacement. However, Board Policy V.01.03 Allocation and Spending Plans does specify how repair and replacement dollars are allocated to the colleges and does contain a provision that "transfer cannot be made from the repair and replacement allocation." In addition, written procedures were distributed and discussed at meetings with both college presidents and business officers to ensure that they were familiar with the general definitions available and the appropriate accounting procedures.

The appropriation for Repair & Replacement in the 1987 bill was made according to a formula developed by the Department of Finance and was not based on a project-by-project analysis. The funds were allocated to the colleges based on a formula using similar factors. Funding by formula is a common practice in the college operating budget allocation.

This funding must be distinguished from the systemwide capital improvements funding commonly authorized in the bonding bills. In the 1989 bonding bill (Minnesota Laws for 1897, Chapter 401, Section 18, Subd. 13, clauses (a) and (b)), the legislature authorized $2,830,000 for systemwide capital improvements and $1 million for several other specified purposes. All of the purposes specified fall within the definition of repair and replacement. What generally differentiates these expenditures from operating budget repair and replacement projects is their larger size and magnitude.

These projects were allocated to campuses on a project by project basis, and the expenditures were carefully monitored.

In summary, where the legislature appropriated funds on a formula basis, the system allocated the funds on a formula basis and campus administrators were given discretion within defined procedures to make expenditures. The usual accounting controls and reporting procedures were followed. Where the legislature authorized funds on a project or category basis, the allocations were similarly made and monitored.

The Finance Department capital budget instructions are subject to interpretation. We disagree that $123,200 of repair projects expenditures do not meet this definition, with the possible exception of one specific expenditure.

With the increased appropriations of repair and replacement funding in recent years, we have added an additional position to administer and monitor repair and replacement projects and to monitor expenditures. This individual is also developing improved coordination between operating budget and bonding authorizations for capital improvements. As part of this position's duties, improved definitions and procedures for repair and replacement funding are being developed.

Person Responsible for Implementation: Eric Radtke, Director of Policy and Budget.

Date: June 30, 1991

FINDING #5

A Worthington Community College instructor obtained mileage reimbursement for commuting between his residence and the college.

Recommendation

The Community College System should seek reimbursement of $885 from the instructor.

MCCS Response

When the system office became aware of the mileage reimbursement for the instructor, the college was directed to stop the practice. Related materials will be provided to the Attorney General for review and disposition of the issue.

Person Responsible for Implementation: Glenn Wood, Director of Fiscal Services.

Date: December 31, 1990

FINDING #6

The Chancellor is not following required procedures for obtaining mileage reimbursements.

Recommendation

The Chancellor should follow the established procedures for obtaining travel expense reimbursements, including adequately documenting travel.

MCCS Response

Records are available in our office to document all mileage expenses of the Chancellor.

While the cost efficiency of the required level of detailed reporting is questioned for frequent, short trips in the Twin Cities metropolitan area where six community colleges are located, it will be included in all future expense reports.

Person Responsible for Implementation: Gerald W. Christenson, Chancellor.

Date: September 1, 1990

FINDING #7

Faculty funded by the Bush Grant did not follow proper travel procedures.

Recommendations

A. The system office should require an approved out-of-state travel authorization form to be on file before any advances or reimbursements are made for the trip.

B. The system office should monitor any outstanding travel advances to ensure that travel advance settlements are made within five days after the completion of the trip.

MCCS Response

Response to Recommendation A

The system office will ensure that an approved out-of-state travel authorization form is on file before any advances or reimbursements are made for out-of-state travel.

Person Responsible for Implementation: Walter J. Cullen, Director of Staff Development.

Date: October 1, 1990

Response to Recommendation B

The system office follows the instructions on the Employee Expense Report F1-00010-06, which states that travel advances must be settled within 30 days after the completion of the trip. The system will request clarification from the Department of Finance.

Person Responsible for Implementation: Glenn Wood, Director of Fiscal Services.

Date: October 1, 1990

FINDING #8

Control over accounting for computer equipment inventory should be improved.

Recommendations

A. The system office should separate duties over custody of fixed assets and related recordkeeping. Someone independent of these functions should participate in the physical counts.

B. The system office should update its fixed assets records on a timely basis.

MCCS Response

Response to Recommendation A

The system office maintains two separate listings for computer equipment.

The Information Services division maintains a location list of computer equipment in order for staff members to promptly and accurately reconcile parts distribution, repair orders, and performance problems. This list is for internal purposes only.

The second listing is the fixed asset reconciliation listing maintained by the Fiscal Services Division. Information Services staff members do affix fixed asset numbers to new equipment, or provide college staff with fixed asset numbers for items shipped directly to the colleges. However, it is the responsibility of the Internal Auditor to request a complete fixed asset listing on an annual basis. As future site audits occur, the auditor will verify a random sampling of entries on the fixed asset listing against the fixed assets at the college.

Person Responsible for Implementation: James Harris, Internal Auditor.

Date: September 1, 1990

Response to Recommendation B

The fixed asset inventory is current.

Person Responsible for Implementation: Glenn Wood, Director of Fiscal Services.

Date: September 1, 1990

FINDING #9

Duties over computer operations are not adequately separated.

Recommendations

The Community College System should ensure that no unauthorized programming changes could occur.

MCCS Response

The Information Services Division of the system office has developed a formal procedure to maintain security for computer program development and modifications. This procedure has been in place for the past four years.

The system office will review the procedure and ensure that provisions are included to monitor program changes, provide for separation of duties and internal control of program change.

Person Responsible for Implementation: Neil Christenson, Deputy Chancellor.

Date: December 1, 1990

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