

**ARROWHEAD COMMUNITY COLLEGE REGION OFFICE
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1991**

JULY 1992

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

92-44

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

ARROWHEAD COMMUNITY COLLEGE REGION OFFICE

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1991

Public Release Date: July 16, 1992

No. 92-44

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Employee payroll, federal cash receipts, supplies and equipment disbursements, and miscellaneous receipts.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- Federal cash management for the Arrowhead Community College Region needs improvement.

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

- The Arrowhead Community College Region has not complied with federal cash management regulations.

Contact the Financial Audit Division for additional information.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Geraldine Evans, Chancellor
Community College System

Members of the Community College Board

Dr. Philip J. Anderson, President
Arrowhead Community College Region

Audit Scope

We have conducted a financial related audit of the Arrowhead Community College Region Office as of and for the three years ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Arrowhead Community College Region Office, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Arrowhead Community College Region Office in effect as of December 1991.

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 transactions of the Arrowhead Community College Region Office are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Arrowhead Community College Region Office's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Arrowhead Community College Region 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

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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:

- employee payroll,
- federal cash receipts,
- supplies and equipment disbursements, and
- miscellaneous receipts.

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.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Arrowhead Community College Region Office. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to

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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 the reportable condition described in finding 1 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 Arrowhead Community College Region Office at the exit conference held on February 27, 1992.

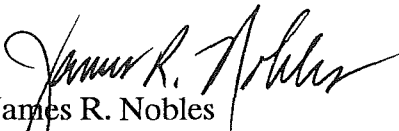
The results of our tests indicated the following instance of noncompliance with the provisions referred to in the audit scope. In a May 1991 letter, the United States Department of Education Office of Inspector General cited the Arrowhead Community College Region for using an unallowable replacement system to charge salaries to a Title III Grant (Strengthening Institutions, CFDA 84.031). Under the replacement system, the Region Office charged the grant for salaries of employees who did not perform any Title III activities, instead of for employees who were actually working on the grant. However, the Inspector General concluded that the practice had not resulted in any excess charges to the grant. We also noted that the Region Office had used the replacement system for the Drug Prevention Grant (CFDA 84.183), as well. Beginning in October 1991, the Region Office changed its procedures so that it is now complying with the federal grant requirements.

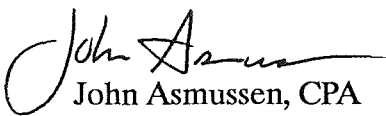
The results of our tests indicate that, except for the issues discussed in finding 1 and the preceding paragraph, with respect to the items tested, the Arrowhead Community College Region Office complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Arrowhead Community College Region Office had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Arrowhead Community College Region Office. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 16, 1992.

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We would like to thank the Arrowhead Community College Region Office staff for their co-operation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 28, 1992

Report Signed On: July 7, 1992

Arrowhead Community College Region Office

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Kari Irber, CPA	Auditor-in-Charge
Janet Knox, CPA	Auditor
Susan Rumpca, CPA	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Arrowhead Community College Region at an exit conference on February 27, 1992:

Bill Maki	Administrative Services Director
Sally Thompson	Administrative Assistant
Patti Stahl	Personnel Officer
Glenn Wood	Director of Fiscal Services, Community College System Office

Arrowhead Community College Region Office

Introduction

The Arrowhead Community College Region was organized by the Minnesota State Community College Board in 1981. The region office consolidated the management of the community colleges and community college centers in northeastern Minnesota. These colleges and centers are Mesabi (Virginia), Hibbing, Itasca (Grand Rapids), Vermilion (Ely), Rainy River (International Falls), the Duluth Center, and the Fond Du Lac Center. Dr. Philip Anderson is the president of the Arrowhead Community College Region.

The Arrowhead Community College Region Office receives General Fund appropriations for its operations. The Region Office also receives federal grants on behalf of the campuses in the region. Region Office and college staff administer federal programs at the individual colleges.

Following is a summary of the Arrowhead Community College Region Office's financial activity during the audit period:

	Fiscal Year		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Revenues:			
Federal grants	\$ 911,727 ¹	\$ 715,026 ¹	\$ 743,226 ¹
Private grants/inter- agency revenues	92,670	132,750	70,758
Other	<u>48,051</u>	<u>44,263</u>	<u>43,912</u>
Total Revenues	<u>\$1,052,448</u>	<u>\$ 892,039</u>	<u>\$ 857,896</u>
Expenditures:			
Payroll	\$1,515,137	\$1,100,959	\$1,002,227
Supplies and equipment	219,160	214,043	235,116
Other	<u>429,068</u>	<u>366,767</u>	<u>394,743</u>
Total Expenditures	<u>\$2,163,365</u>	<u>\$1,681,769</u>	<u>\$1,632,086</u>

¹We also reviewed cash management procedures for federal Title IV financial aid funds administered by the five Arrowhead Region campuses. Title IV revenues are approximately \$760,000 per year and are not included in the preceding schedule.

Sources: Managers Financial Reports for fiscal years 1991, 1990, and 1989 on a budgetary basis. Community College System revenue spreadsheet for fiscal years 1991, 1990, and 1989. Arrowhead Community College Region Office statements of representation for fiscal years 1991, 1990, and 1989.

Current Finding and Recommendations

1. PRIOR FINDING NOT RESOLVED: Federal cash management for the Arrowhead Community College Region needs improvement.

The Arrowhead Community College Region is not complying with federal cash management regulations. U.S. Treasury circular 1075 requires institutions to limit cash advances to the actual, immediate cash requirements. Federal regulations generally allow no more than three days from the time an institution receives a federal wire transfer to the time students cash their financial aid checks. The Arrowhead Region does not adequately forecast immediate cash requirements nor does it disburse the funds efficiently.

The Arrowhead Region is the accredited institution responsible for allocating and requesting all Title IV federal financial aid awards, including Perkins, SEOG, and college work study. The Region is also responsible for requesting federal funds for various federal program grants. The Director of Campus Services at Hibbing Community College requests these federal funds for the entire region. The U.S. Treasury electronically transfers funds into Hibbing's federal funds bank account. The Hibbing Campus Services Director then sends checks to the campuses for financial aid or to the State Treasurer for federal program grants.

Procedures used at Hibbing Community College to record the sources and uses of federal funds are not adequate to provide an accurate assessment of cash on hand. The U.S. Treasury deposits all of Arrowhead's federal funds in the Hibbing campus federal financial aid account. This account contains Hibbing Community College's Pell and Perkins funds, as well as funds requested by the other campuses. The commingling of federal funds makes it difficult to identify deficiencies or excesses of cash. As a result, the Hibbing Campus Services Director has had to make transfers from the Hibbing All College account and loans between campuses to provide sufficient federal cash.

In addition, procedures used to disburse funds to the individual campuses are not efficient. The Arrowhead Region Office has directed Hibbing's Campus Services Director to draw and disburse SEOG and Perkins funds at the beginning of each quarter. Using this procedure, the Arrowhead Region has not based advances upon the actual and immediate needs of the individual campuses.

We do not believe that the Arrowhead Community College Region provides adequate oversight over federal grant drawdowns. The Region Office relies upon the Director of Campus Services at Hibbing Community College to request and disburse federal awards rather than monitoring it themselves. In addition, the community college campuses do not receive timely status reports on their allocation of funds on a regular basis.

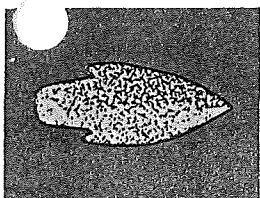
Arrowhead Community College Region Office

Colleges within the Arrowhead Region may never be able to comply with federal cash limitations given the current system of allocating and disbursing federal funds. During our tests, we found that federal cash generally stayed in the Hibbing federal account for six to eleven days before being sent to the requesting campus. In addition, the Region also needs to consider the time it takes for checks to travel through the mail from Hibbing. Finally, although we not test the number of days the campuses used once the check arrived before disbursing the aid to students, this undoubtedly added additional delays.

Federal cash management requirements are changing. On March 23, 1992, the U.S. Department of the Treasury proposed regulations to implement the federal Cash Management Act of 1990. These proposed rules provide states with several options to manage transfers of funds from the federal government for federal programs. Some options involve establishing check clearance patterns and/or incurring interest on federal fund balances. The Minnesota Department of Finance is currently working with state agencies to determine the specific funding techniques agencies will use, and to negotiate a state/federal cash management agreement.

Recommendations

- *The Arrowhead Community College Region should develop cash management procedures which enable them to comply with federal cash management regulations.*
- *The Arrowhead Community College Region should deposit federal funds into a bank account which physically segregates Arrowhead's funds from other funds.*
- *Arrowhead Community College Region should exercise a greater degree of oversight of the cash management of funds awarded to the region.*



**ARROWHEAD
COMMUNITY
COLLEGE REGION**

1855 E. Highway 169
Grand Rapids,
Minnesota 55744
[2 1 8] 3 2 7-4 3 8 0

DATE: June 29, 1992

TO: Ms. Jeanine Leifeld
Audit Manager

FROM: Philip J. Anderson, President
Arrowhead Community College Region

SUBJECT: Response to Audit Recommendation, Dated June 19, 1992

FINDING: Federal cash management for the Arrowhead Community College Region needs improvement.

Person Responsible: Bill Maki, Director of Administrative Services

Date of Completion: July 31, 1992

Response to Recommendation:

Arrowhead Community College Region and Hibbing Community College are in the process of establishing separate checking accounts with all draw downs to be processed in the Arrowhead regional office in Virginia. Draw downs will be done at least on a weekly basis, based on projected needs.

Funds will be deposited directly to the State Treasury for all accounts, except SEOG and NDSL, which will be distributed to the campuses.

The region office will coordinate with Jim Schneider of the system office in St. Paul to effectively control our cash management.

Adequate records will be maintained to provide a federal funds balance and a complete audit trail.

Please feel free to contact me if you need additional information.

►
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