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**COMMUNITY COLLEGE SYSTEM**  
**SELECTED SCOPE FINANCIAL AUDIT**  
**FOR THE YEAR ENDED JUNE 30, 1993**

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**SEPTEMBER 1994**

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

**94-42**



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

## COMMUNITY COLLEGE SYSTEM SELECTED SCOPE FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: September 2, 1994

No. 94-42

### AGENCY BACKGROUND

The Community College System is made up of 18 campuses and 3 centers located throughout the state, pursuant to Minn. Stat. Section 136.60. The community college system office oversees the activities of the colleges and provides central support. Dr. Geraldine Evans is the current chancellor of the Community College System.

### SELECTED AUDIT AREAS

#### ♦ *Payroll Expenditures*

The Community College System expended nearly \$136 million on salary and fringe benefits during fiscal year 1993. Payroll expenditures are the largest component of the Community College budget, using 58 percent of its resources. Unclassified employees, consisting of administrators, professional staff, and faculty, accounted for 77 percent of payroll expenditures.

Overall, we found that the Community College System properly accounted for and controlled its payroll expenditures. In particular, we found that the system maintained effective controls for regular time worked, the most significant factor affecting payroll costs. However, we found some weaknesses with the processes for recording certain types of pay and earnings codes. We also cited the need to reevaluate the use of overtime on some campuses. We found a case where a former Mesabi Community College faculty member had been overpaid by about \$2,000 in severance pay. Finally, we found a conflict of interest involving an appointment at Duluth Community College Center.

#### ♦ *Repair and Replacement Expenditures*

The Community College System annually allocates a small portion of its operating appropriation to individual campuses for funding minor repair and replacement projects. In fiscal year 1993, the system allocated slightly more than two million dollars for these projects. Major capital projects are funded through the state's capital budget process.

We found that the system allocated repair and replacement funds in accordance with board policies. We found that these funds were properly administered and controlled.

#### ♦ *Appropriation Allocation Process*

We updated our previous analysis of the system's carry forward of appropriation allocations. At the end of fiscal year 1993, the Community College System carried forward \$15,255,091, or approximately 10 percent of its available resources. This represents a \$651,356 reduction from the amount carried forward in the previous year.

Contact the Financial Audit Division for additional information.

296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert Bigwood, Chair  
Minnesota State Board for Community Colleges

Members of the Minnesota State Board for Community Colleges

Dr. Geraldine Evans, Chancellor  
Minnesota Community College System

## **Audit Scope**

We have conducted a financial related audit of selected programs of the Minnesota State Community College System for the year ended June 30, 1993. We emphasize that this has not been a complete audit of all programs within the Community College System, and that our audit was limited to only that portion of the financial operations as outlined below and as further discussed in Chapter 1.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the system's compliance with certain material provisions of laws regulations, contracts, and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

## **Internal Control Structure**

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

- Systemwide payroll expenditures for classified, faculty, and unclassified administrator employees,
- Systemwide repair and replacement allocation and expenditures,
- Systemwide appropriation allocation carryover for fiscal year 1993.

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

## **Management Responsibilities**

The management of the Community College System 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.

## **Conclusions**

Our review of selected program areas disclosed the conditions discussed in findings 1 through 4 involving the internal control structure of the selected aspects of the Minnesota State Community College System. We consider these conditions to be reportable conditions under the 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.

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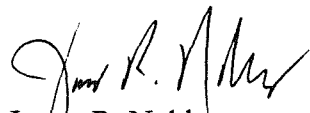
A material weakness is a reportable condition in which the design or operation of the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may 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 weaknesses.


The results of our tests indicate that, except for the issue discussed in findings 5 and 6, with respect to the items tested, the Community College System 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 had not complied, in all material respects, with those provisions.

Pursuant to Minn. Stat. Section 3.975, finding 5 of this report shall be 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. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 2, 1994.

We thank the Community College System campus and system office staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: June 30, 1994

Report Signed On: August 29, 1994





# Community College System

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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
Michael Hassing	Auditor-in-Charge
Melissa Primus, CPA	Auditor
Gail Thurmer, CISA	Auditor
Fubara Dapper	Auditor
Geniene Herrlich	Auditor

### Exit Conference

The issues in this report were discussed with the following staff of the Community College System on August 19, 1994:

Geri Evans	Chancellor
Glenn Wood	Director of Finance
Elaine Stump	Payroll and Benefits Supervisor
Judy Sandal	Payroll Officer
Faith Latimer	Labor Relations Representative
Brian Ecker	Human Resources
Jim Harris	Internal Auditor



# Community College System

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## Chapter 1. Introduction

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The Community College System is composed of 18 college campuses and 3 college centers located throughout the state, pursuant to Minn. Stat. Section 136.60. The community college system office, located in Saint Paul, oversees the activities of the colleges and provides central service support. Table 1-1 shows the campuses within the system and their locations.

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**Table 1-1**  
**Community College Campuses - by location**

<b>Campus</b>	<b>Location</b>
Anoka Ramsey Community College	Coon Rapids
Cambridge Center	Cambridge
Inver Hills Community College	Inver Grove Heights
Lakewood Community College	White Bear Lake
Minneapolis Community College	Minneapolis
Normandale Community College	Bloomington
North Hennepin Community College	Brooklyn Park
Rochester Community College	Rochester
Brainerd Community College	Brainerd
Fergus Falls Community College	Fergus Falls
Northland Community College	Thief River Falls
Austin Community College	Austin
Willmar Community College	Willmar
Worthington Community College	Worthington
Arrowhead Community College Region	
Hibbing Community College	Hibbing
Itasca Community College	Grand Rapids
Mesabi Community College	Virginia
Rainy River Community College	International Falls
Vermilion Community College	Ely
Fond du Lac Center	Cloquet
Duluth Center	Duluth

Source: Community College System data.

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## Community College System

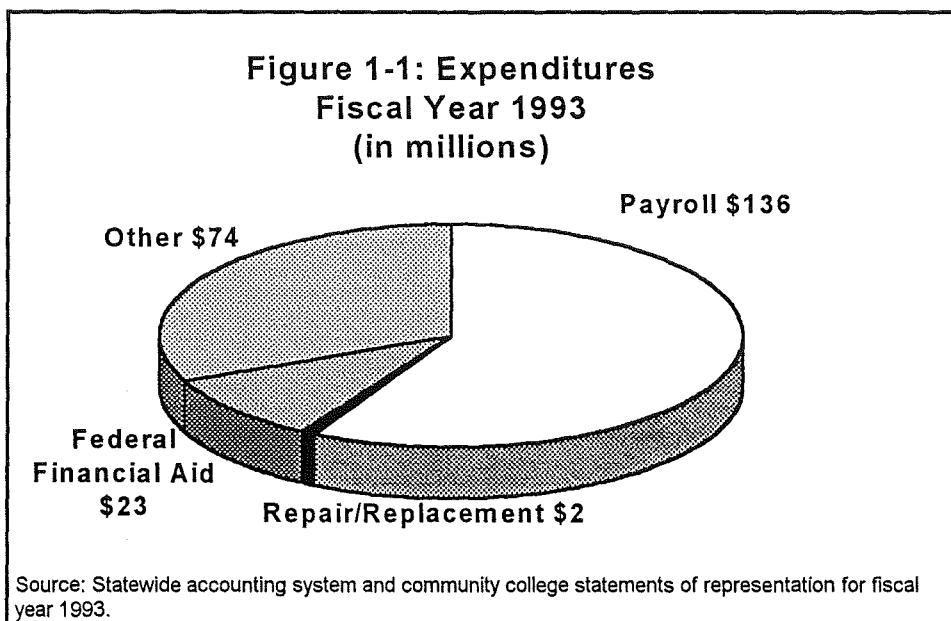
The State Board for Community Colleges oversees the Community College System. It consists of nine members appointed by the governor with the advice and consent of the senate. One member must be a full-time student at a community college at the time of appointment or must have been a full-time student at a community college within one year before the appointment to the board. Other than the student member, at least one member must be a resident of each congressional district. The board appoints a chancellor for the system. Geraldine Evans has been the chancellor since July 1, 1992. Each community college has a president who serves at the pleasure of the board. The Arrowhead Region has a president who oversees all colleges within the region.

The community college system office views each of the community colleges as fairly autonomous operating units, each with a broad range of powers. Although the community college board allocates the legislative appropriations to each college, each college president has broad discretion in spending the individual college budget. Also, most administrative responsibilities, including the ability to hire and fire employees, are controlled by individual college presidents.

The system office serves as the central processing agent for much of the financial activity at the campus level. System office personnel provide fiscal, personnel, and computer services for the individual colleges. Fiscal services include payroll and disbursement processing, budget tracking, systemwide accounting, grant supervision, and student loan collection. The central office administers the retirement plans for community college employees. The system office also reviews and screens personnel information prior to central state processing. Computer support systems include the student information, personnel expenditure, and non-personnel expenditure systems.

## Community College System

Figure 1-1 summarizes the Community College System's expenditures for the year ended June 30, 1993.



The scope of this audit was limited to a review of payroll expenditures, repair and replacement expenditures, and an update on the system's fiscal year 1993 appropriation carryover. We test federal financial aid programs for the Community College System in conjunction with our annual statewide audit of the State of Minnesota's financial statements and federal programs. We have issued a separate management letter to the Community College System concerning federal financial aid during the audit period. It was dated June 10, 1994 and covered the fiscal year ended June 30, 1993.

## **Community College System**

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## Chapter 2. Payroll Expenditures

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### *Chapter Conclusions*

*Overall, the Community College System properly accounted for and controlled payroll expenditures for the system. Most payroll costs occurred as a result of regular time worked. These payroll costs were well controlled. However, we found four specific weaknesses in the way the Community College System accounted for and recorded certain types of pay, including overtime and leave.*

*We also found that Mesabi Community College had made unallowable leave payments to a faculty member, and that a conflict of interest improperly influenced the appointment of an employee at the Duluth Community College Center.*

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Community college employees are represented by a variety of bargaining agreements and administrative policies, both within the classified and the unclassified service. Unclassified personnel represent approximately 77 percent of the personnel budget and consist of administrators, professional staff, and faculty. The classified employees are in the state civil service and fall within various bargaining units similar to other state agencies. Table 2-1 shows the Community College System's employee classifications.

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**Table 2-1: Employee Classifications**

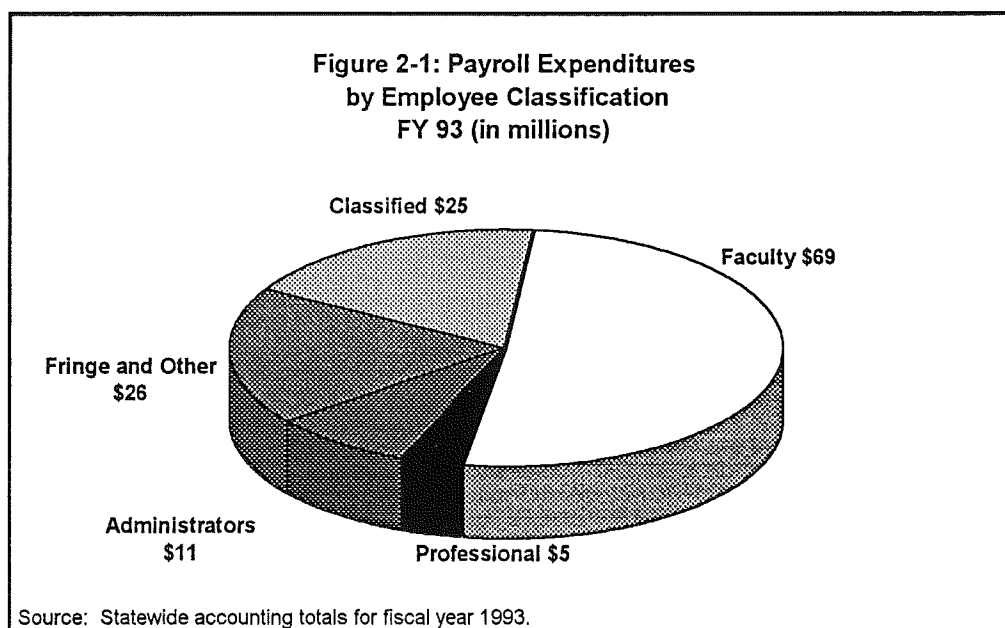
Group	Examples	Defining Policies
Administrators	Chancellor, President, Director	Board Policies
Professional Staff	Admin. Asst., Program Director, Supervisory staff	Minnesota Association of Professional Employees contract or Middle Manager's contract
Faculty	Instructor, Counselor, Librarian	Minnesota Community College Faculty Association contract
Classified Employees	Business officer, Secretary, Maintenance worker	Manager's Plan, Commissioner's Plan, or AFSCME Council 6 contract
Unrepresented Employees	Instructor or Counselor teaching up to 4 credits in a year	Board Policies
Student Employees	Student worker	Board Policies

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Source: Adapted from Community College System policies and regulations.

## Community College System

Personnel costs are the largest expenditure category for the community colleges. Approximately 58 percent of all Community College System spending is for salary and fringe benefits. Figure 2-1 reflects payroll expenditures for the community colleges for fiscal year 1993 by employee classification.



The system office and the individual colleges share responsibility for processing personnel and payroll transactions. Most personnel actions originate within the college human resources departments. Campus payroll staff prepare the appropriate documents and forward them to the system office for review. In turn, the system office sends employee action forms to the Department of Employee Relations to activate an employee on the statewide payroll system.

Each campus is responsible for accumulating the appropriate payroll records, such as time sheets and leave records, to process the bi-weekly payroll. The college human resource department combines the payroll information into a summary of payroll activity by employee classification. The summaries list each employee and include all earning type codes and hours for each code by pay period. The college sends the summary of payroll activity to the system office. The system office enters the summarized payroll information into the statewide payroll system each pay period. Each college is responsible for disbursing payroll checks to employees.



## Community College System

Table 2-2 shows total payroll expenditures for each community college for fiscal year 1993.

**Table 2-2: Payroll Expenditures  
Fiscal Year 1993 - by campus**

College	Salary	Fringe	Total
Normandale	\$14,447,831	\$3,251,582	\$17,699,412
North Hennepin	9,881,298	2,149,054	12,030,352
Lakewood	9,794,542	2,098,093	11,892,635
Minneapolis	9,749,068	2,062,816	11,811,885
Anoka Ramsey	8,641,040	1,911,261	10,552,300
Rochester	8,446,287	1,983,945	10,430,232
Inver Hills	7,814,987	1,767,678	9,582,665
Brainerd	3,860,870	945,022	4,805,893
System Office	3,837,362	762,417	4,599,780
Willmar	3,420,437	815,307	4,235,744
Itasca	2,965,294	760,525	3,725,819
Austin	2,998,881	703,125	3,702,006
Fergus Falls	2,730,238	680,430	3,410,668
Mesabi	2,733,015	643,819	3,376,834
Hibbing	2,597,597	628,501	3,226,098
Worthington	2,316,422	565,676	2,882,098
Systemwide	2,271,164	484,381	2,755,545
Vermilion	2,121,486	566,655	2,688,142
Northland	2,094,310	503,752	2,598,062
Rainy River	1,748,020	454,748	2,202,768
Arrowhead Region	1,579,264	424,433	2,002,697
Duluth Center	1,532,489	380,192	1,912,681
Cambridge Center	1,370,675	328,475	1,699,150
Fond du Lac Center	1,161,861	263,775	1,425,635
Law Enforcement Center	461,738	80,163	541,901
Clearwater Region	138,186	31,329	169,516
Total	<u>\$110,713,363</u>	<u>\$25,247,154</u>	<u>\$135,960,517</u>

Source: Manager's Financial Report for fiscal year 1993 as of September close.

To satisfy ourselves concerning the accuracy of Community College System payroll, we performed a variety of audit procedures. We reviewed the internal control structure over the payroll system. We performed extensive fiscal analyses of the payroll data for fiscal year 1993. In addition, we sent detailed personnel/payroll surveys to all community colleges. Through the surveys, we gained information about campus payroll procedures. We tested regular payroll, as well as vacation and sick leave earnings. In addition, from information acquired from the fiscal analyses and college surveys, we identified specific types of pay that appeared unusual or problematic. These pay types included community service teacher pay, extracurricular pay, training pay, severance pay, sabbatical pay, and relocation pay. We tested selected payments coded to those pay types.

## Community College System

### **1. The Community College System does not consistently use the various payroll type codes available within the personnel/payroll system.**

The Community College System does not consistently use the proper earning codes when processing payroll transactions. The statewide personnel/payroll system has over 75 payroll earning codes available to account for hours worked by employees. The earning codes identify the type of pay the employee is receiving for the pay period. For example, separate earning codes exist for regular pay, vacation pay, sick pay, holiday pay, training pay and sabbatical pay. The college may use several earning codes within a pay period to account for an employee's payroll hours.

Colleges do not consistently use the same payroll earning codes to account for the same type of hours worked. For example, all colleges do not use the same earning code to account for training hours. Some colleges code training hours to the regular pay earning code and others code the same hours to the training pay earning code. This inconsistency makes it difficult to analyze and assess payroll expenditures between colleges. In addition, none of the colleges used the sabbatical pay earning code during fiscal year 1993 to account for sabbatical leave taken by faculty or administrators. Instead, the colleges coded the sabbatical leave to the regular pay code. Consistent coding would improve comparability of payroll expenditures between colleges and identify any disproportionate spending in certain earning codes.

The Community College System cannot track certain earning codes because of lack of documentation. This problem especially occurs with the faculty, who are not required to record or report time worked. The system cannot verify faculty hours recorded to special pay codes such as community service pay (CST) and extracurricular activity pay (ECA) because the faculty do not record time worked within these categories each pay period. Instead, the system office payroll staff code faculty time to these codes, based on assumptions of time worked.

Community College officials rely on an internal payroll cost and budgeting system to provide them with information on faculty pay and sabbaticals. However, the system is based on cumulative pay and does not provide the level of detail the Community College System needs to adequately monitor payroll.

#### *Recommendation*

- *The community colleges should consistently use the appropriate earning codes within the personnel/payroll system to record hours worked.*

### **2. The Community College System does not adequately review payroll hours processed within the personnel/payroll system.**

Community colleges do not adequately and consistently document and reconcile employee payroll information to original employee time records. As a result, we noted inconsistent reporting of time and payroll information between the colleges and system office. The campus payroll staff record individual employee time worked onto a master timesheet each pay period. Colleges then submit these master timesheets to the system office. The system office manually enters the information into both the state personnel/payroll system and the community college payroll system. The system office reconciles selected master timesheet totals by employee classification to the systems payroll roster. During the reconciliation process, the system office may process

## Community College System

payroll adjustments and corrections. However, the college campuses do not always receive documentation for all adjustments made by the system office. It is therefore difficult for campus staff to perform a complete reconciliation of final payroll to the original time records. To avoid payroll errors and verify the accuracy of payroll, the Community College System needs to develop consistent and proper review procedures over employee payroll information.

### *Recommendations*

- *The Community College System should develop a review process to ensure timesheet information is recorded and reported accurately on the personnel/payroll system.*
- *System office staff should notify colleges promptly of changes and corrections they make to college payroll data.*

## Overtime Pay

The bargaining unit agreements for classified and professional employees allow employees to earn overtime pay. Employees may earn overtime pay for hours worked that exceed their normal work day. Depending on the bargaining unit agreement, the employees receive either pay at straight time (normal compensation rate) or at time and a half pay (one and one half times the normal compensation rate).

The Community College System follows the Department of Employee Relations (DOER) policy for requesting and reporting overtime. The DOER policy requires employees to obtain written approval by an appointing authority prior to working the overtime hours. In emergency situations, the appointing authority may approve overtime after the employee performs the work.

After performing the overtime work, employees are to report the hours actually worked on their time sheets and submit the hours to the personnel office at the end of the pay period. Several earning codes exist in the personnel/payroll system to account for different types of overtime pay. For example, the system uses separate earning codes for straight overtime pay, overtime pay at time and a half, call back time, and compensatory time.

During our audit, we noted that the usage of overtime was very high at several colleges. Figure 2-2 illustrates college overtime expenditures as a percentage of total payroll for fiscal year 1993.

## Community College System

**Figure 2-2: Overtime  
as a Percentage of Total Campus Payroll  
Fiscal Year 1993**

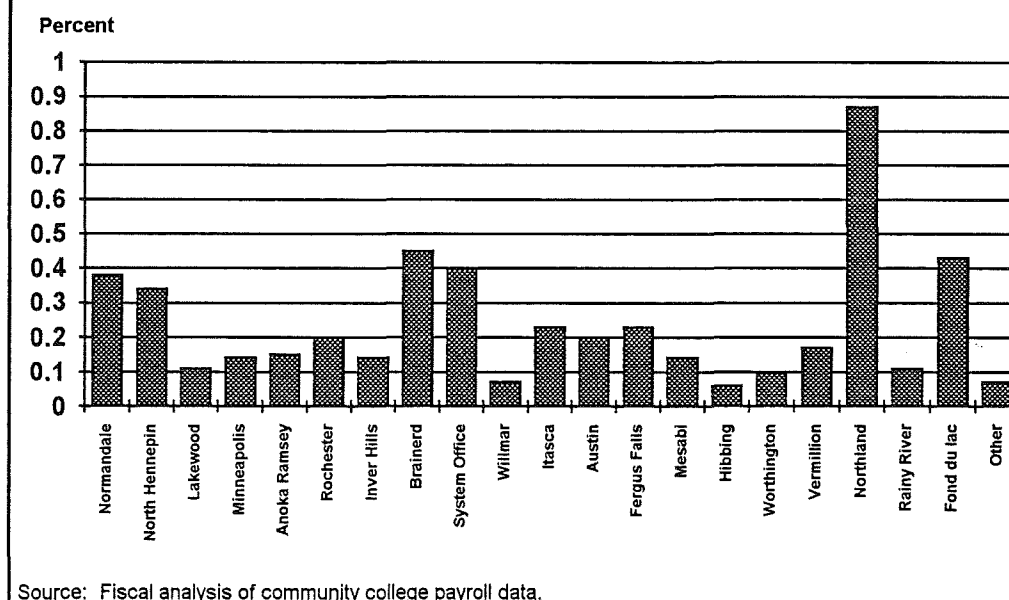


Table 2-3 shows the seven highest amounts of overtime individual employees earned during fiscal year 1993. We reviewed these employee's payroll to determine the reasonableness of the overtime. Findings 3 and 4 cite specific weaknesses we noted in our review of overtime.

**Table 2-3: Highest Overtime Earned by  
Individual Employees - Fiscal Year 1993**

Employing College	Employee's Base Salary	Overtime Earned	Total Pay	Overtime % to Base Salary
Northland	\$33,463.08	\$ 9,509.16	\$ 42,972.24	28%
North Hennepin	27,614.08	8,332.76	35,946.84	30%
North Hennepin	20,246.60	7,887.89	28,134.49	39%
Normandale	32,239.04	7,404.77	39,643.81	23%
Normandale	29,555.93	5,623.25	35,179.18	19%
Inver Hills	40,820.80	5,310.00	46,130.80	13%
Lakewood	17,041.23	5,256.29	22,297.52	31%

Source: State personnel/payroll system.

### 3. The Community College System needs to evaluate its use of overtime on some campuses.

The Community College System should determine the efficiency of its usage of overtime pay on certain community college campuses. As can be seen in Table 2-3, some employees increased their base salaries by over 30 percent through overtime worked. In particular, one Northland Community College employee earned large amounts of overtime during fiscal year 1993. For this

## Community College System

employee, a maintenance worker, we reviewed time sheets for three consecutive pay periods. The employee recorded hours worked on 42 consecutive days within this period. College officials told us that the overtime was a result of routine boiler inspections. They also verified that no emergencies had occurred during this time. During these pay periods, the employee received 118 hours of overtime pay at time and a half. The Community College System should evaluate the necessity of these overtime hours. The system should determine whether overtime usage or rescheduling employee work hours would be more cost-beneficial.

### *Recommendation*

- *The Community College System should reevaluate the usage of and need for overtime hours at individual colleges, particularly at Northland Community College.*

#### **4. Certain community colleges did not have adequate controls over processing overtime hours.**

Certain community college employees received large amounts of overtime pay without consistently obtaining advance approval. For example, two employees at North Hennepin Community College did not submit overtime requests until well after performing the overtime work. In one case, the requests included overtime hours which had occurred up to five months previously. Although the employee's supervisor ultimately approved the overtime, there was a significant time delay between the dates the employee worked and when the time was reported. We found similar problems with high overtime employees at Lakewood, Northland and Normandale Community Colleges. Pursuant to Department of Employee Relations policies and the applicable bargaining agreements, supervisors should authorize overtime in advance, except in emergency situations.

### *Recommendation*

- *Community college employees should obtain prior approval for overtime hours except in emergency situations.*

## Leave

Community college employees earn vacation and sick leave as a benefit of employment. The bargaining unit agreements specify the rate of vacation and sick leave accrual. Classified employees and professional staff earn a specific number of hours of vacation and sick leave each pay period. The number of hours earned each pay period depends on the length of employment. The contract for full-time administrators grants 13 days of sick leave at the beginning of each contract year. The administrator's contract also grants two days of vacation leave each month for 10 to 12 months, depending on the length of employment. The faculty contract grants 20 days of sick leave upon initial employment. Full-time faculty members receive an additional 10 days of sick leave each year thereafter. The faculty agreement provides each faculty employee with 2 days of personal leave at the beginning of each academic year. Under all bargaining unit agreements, employees may not take vacation or sick leave if they do not have an adequate leave balance to cover the days taken.

## Community College System

The state personnel/payroll system maintains the leave records for the classified employees and the professional staff. The system automatically increases employee leave balances at the end of each pay period after processing payroll. Employees record the usage of leave on their time sheets. The payroll staff code the leave to the applicable earning codes on the personnel/payroll system. The system deducts leave usage from the appropriate leave balances. The system does not allow an employee to take leave if an adequate leave balance does not exist.

The state personnel/payroll system does not maintain the faculty leave balances. Instead, each community college is responsible for maintaining the leave records for faculty. Campus payroll staff maintain manual leave records at each campus. Faculty notify their supervisors of leave taken. The payroll staff deduct leave usage from the employee balances. Because the leave records are not on the personnel/payroll system, automated controls do not exist to prohibit an employee from using more leave than an employee has earned.

### **5. Mesabi Community College allowed an employee to receive leave for which the employee was not entitled.**

Mesabi Community College provided paid leave to a faculty member during fiscal year 1993 for which the employee was not eligible. During November 1992, the college paid the employee three days of personal leave when the employee had a balance of only 1.17 days. After posting the personal leave taken in November, the employee had a personal leave balance of negative 1.83 days. In February, the college paid the employee for five additional days of personal leave. The payroll staff reduced the employee's leave balance to negative 6.83 days.

The college also paid the same employee for one day of sick pay for non-medical or non-illness reasons. The employee did not work because of bad weather conditions in December 1992. Mesabi Community College processed the leave as sick leave because the employee did not have an adequate personal leave balance. The faculty contract limits the use of sick leave for illness, injury, or medical and dental care. Therefore, the college should have charged the employee's personal leave balance, rather than sick leave, for the absence. The employee's personal leave balance would then have been a negative 7.83 days.

The employee retired in June 1993. The employee did not earn adequate personal leave to remedy the negative 7.83 hours. The employee received approximately \$17,000 in severance pay at retirement. The college did not subtract the negative personal leave balance from the employee's severance benefits. Therefore, the college overpaid the employee \$2,173, or the equivalent of 7.83 days.

### *Recommendation*

- *The Community College System should work with the Attorney General to remedy the overpayment to the Mesabi Community College employee.*

# **Community College System**

## **Interagency Agreements**

The Community College System uses interagency agreements extensively as part of its normal operating procedures. Interagency agreements allow employees of a state department to provide services to another state department. For example, an employee of the Department of Human Services may teach a class at a community college. On the other hand, an employee of the Community College System may work for the Department of Natural Resources during the summer months.

The complexity of these agreements rests with the funding and proper recording of individual transactions. The agency receiving the benefit from the services is responsible for funding the appointment. The employee's home agency is responsible for entering the payment into the payroll system. The system only allows one agency (home agency) to enter all payments for an individual into the system. The Community College System also requires a formal interagency agreement document be completed and authorized for all participating employees.

In order to process individual transactions, the employing department provides Inter-Agency Payment Authorization forms to the home agency each pay period. These authorization forms contain specific information necessary for the home agency to make the payment. This information includes the pay period, name, social security number, appointment number, allotment reference number (AID), job class, and amount or hours to be paid. In all cases, payroll activity for the assignment must be charged directly to the requesting agency's AID. In other words, the Community College System enters payroll activity into the system using another department's AID. It is the responsibility of each agency to reconcile their payroll activity each pay period to ensure that only valid transactions are charged against their own accounts.

We found that the Community College System had proper documentation in support of its interagency agreement transactions and reconciled payroll activity in a timely manner.

## **Relocation Expense Reimbursements**

The Community College System reimburses administrators for relocation expenses incurred as a result of accepting a position within the system. The board has a policy which defines allowable reimbursement expenses and time limitations. The policy does not establish a maximum reimbursable amount. It is the board's intent that no administrator will incur a financial loss as the result of relocating. Relocation payments are considered wages by the Internal Revenue Service and as such are subject to income tax withholding. The Community College System spent \$93,914 on relocations during fiscal year 1993.

The process begins at the individual campus level. The new administrator completes a worksheet which itemizes estimates of relocation expenses. They also complete the Relocation Expense Authorization form. The administrator submits both documents to the system office for final authorization and approval.

## Community College System

To receive reimbursement, the administrator completes the Employee Relocation Expense Report form with actual expenses incurred. The form is submitted, along with supporting documentation, to the system office for review and reimbursement. Reimbursements are made through the payroll system. The only exception is the direct payment to a vendor for moving household goods. The obtaining of bids for moving services is handled locally at the campus.

The system office maintains an individual file on all administrators receiving relocation reimbursements. The system office reports to the board on total relocation costs incurred on an annual basis. We found documentation and approvals to support the relocation reimbursement transactions selected for review. All payments were in compliance with the provisions of the board policy.

### Conflict of Interest

As part of our audit of payroll expenditures for fiscal year 1993, we investigated a potential conflict of interest situation concerning an employee within the Arrowhead Community College Region.

#### **6. A conflict of interest improperly influenced the appointment of an employee at the Duluth Community College Center and continues to affect the employee's supervision.**

We believe the appointment process and employment of a part-time temporary fiscal director at Duluth Community College constitutes a conflict of interest. After the Director 3 at Vermilion Community College received a sabbatical, the Arrowhead Region administrative services director reassigned the former Duluth Director 3 to another campus, thus creating the Duluth Center vacancy. The administrative services director proposed to have his son fill the vacancy at Duluth. The Arrowhead Region president subsequently approved the appointment. The administrative services director serves as the direct supervisor of his son.

We believe that Minn. Stat. Section 43A.38 applies to this situation. Subd. 5(a) of that section defines a conflict of interest as follows:

[the] use or attempted use of the employee's official position to secure benefits, privileges, exemptions or advantages for the employee or the employee's immediate family .... which are different from those available to the general public;

We believe that the father influenced the appointment and provided an advantage to his son. As the result of a staff sabbatical, the administrative services director reassigned the incumbent Director 3 at the Duluth Center to Rainy River Community College and proposed to have his son be the replacement at the Duluth Center. The regional president concurred with the plan and approved the appointment. The position was not posted or advertised. There was no interview process.

We believe that the Arrowhead Region and the Community College System should have prevented this situation from occurring. Once the region considered a close family member as a candidate for this position, the region should have eliminated the realm for a potential conflict of interest by removing the candidate's father from the appointment process. Other prudent steps



## Community College System

would have included expanding the pool of candidates through a posting and advertisement of the position within the region and the system, and conducting formal interviews with several candidates. The Community College System did not consider the potential for a conflict of interest. Furthermore, the system created an unusual and difficult working situation by making a combined position of Director 3 and accounting technician at the Duluth Center.

At the time of the appointment to Director 3, the employee had worked at Duluth Community College as an accounting technician (account clerk reclassified to accounting technician in February 1994) for a period of less than eight months. He received his accounting degree in November 1992. He did not have any previous managerial or supervisory experience. As an accounting technician, the employee was earning approximately \$27,000 per year. The annual salary as Duluth Director 3 is \$44,950. The employee continues to work half-time as an accounting technician.

As the fiscal director of a college within the Arrowhead Region, the Duluth Director 3 reports directly to the regional director of administrative services, the employee's father. The regional director has the oversight responsibility for monitoring the financial affairs of the college headed by his son. He is also responsible for authorizing and approving his son's time sheets and leave requests, and for conducting performance evaluations. This direct line of supervision over a family member creates a lack of independence and potential impairment of professional judgment.

### *Recommendations*

- *The Community College system should reconsider the appointment of the Duluth Center Director 3.*
- *The Community College System should not allow the current Duluth Director 3 to continue to report and be supervised by his father.*

## Community College System

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## Chapter 3. Repair and Replacement Expenditures

### Chapter Conclusions

*The Community College system has allocated funds designated for repair and replacement projects in accordance with applicable board policies. We reviewed the administration of the allocated repair and replacement funds. We found that the controls over these programs were operating effectively.*

The Community College System annually allocates a portion of its overall operating appropriation to individual colleges specifically for funding repair and replacement projects. The purpose of the allocation is to provide the campuses with some discretionary funds designated for maintaining facilities and making minor repairs.

Each year, the Community College Board approves an extensive policy on allocations. Included in the policy is the formula for allocating repair and replacement funds to the individual campuses. The formula considers total square footage of each campus and is also weighted based on the age of the physical facilities on individual campuses. The policy also allows the system office to maintain a portion of the amount set aside for repair and replacement as a reserve or contingency for emergency repairs. Table 3-1 shows the repair and replacement allocations to individual campuses for fiscal year 1993.

**Table 3-1: Repair and Replacement Campus Allocations  
Fiscal Year 1993**

College	Square Footage	Percent of Total	Percent Allocation	Weighted Percentage	Weighted Allocation	Total Allocation
Anoka Ramsey	253,662	7.92%	\$30,574	8.75%	\$116,748	\$147,322
Cambridge Center	N/A	N/A	N/A	0.27%	3,656	3,656
Arrowhead Region	575,547	17.98%	69,370	18.51%	247,123	316,493
Austin	126,290	3.94%	15,222	5.62%	74,996	90,217
Brainerd	145,665	4.55%	17,557	3.59%	47,908	65,465
Fergus Falls	119,294	3.73%	14,378	3.75%	50,009	64,388
Northland	92,282	2.88%	11,123	2.32%	31,004	42,127
Inver Hills	220,458	6.89%	26,572	6.45%	86,096	112,667
Lakewood	260,107	8.12%	31,350	7.70%	102,810	134,161
Minneapolis	241,469	7.54%	29,104	6.43%	85,843	114,947
Normandale	349,981	10.93%	42,183	11.18%	149,302	191,485
North Hennepin	270,679	8.45%	32,625	8.30%	110,757	143,382
Rochester	283,039	8.84%	34,114	8.99%	120,076	154,191
Willmar	156,329	4.88%	18,842	3.88%	51,789	70,631
Worthington	106,707	3.33%	12,861	4.26%	56,822	69,683
College Total	<u>3,201,509</u>	<u>100.00%</u>	<u>\$385,875</u>	<u>100.00%</u>	<u>\$1,334,939</u>	<u>\$1,720,814</u>
System Operation	N/A	N/A	N/A	N/A	330,750	330,750
Grand Total	<u>3,201,509</u>	<u>100.00%</u>	<u>\$385,875</u>	<u>100.00%</u>	<u>\$1,665,689</u>	<u>\$2,051,564</u>

Source: Fiscal year 1993 Community College repair and replacement allocation data.

## Community College System

According to the formula, the system allocates \$1,720,814, or almost 84 percent, directly to the campuses. The system office withholds the remaining \$330,750 as a reserve or for emergency repairs. We found that the allocation was made in accordance with the board policy.

The allocation designated \$2,051,564 for repair and replacement projects during fiscal year 1993. This amount has remained the same since fiscal year 1991. It is the system office's responsibility to determine the portion of the overall allocation to establish for repair and replacement. Even though the system's total resources have been increasing each year, the repair and replacement amount has remained the same. This results in the campuses receiving a diminishing percentage of the total available resources for repair and replacement. Table 3-2 shows the amount of the repair and replacement allocation as a percentage of the Community College System's total available resources for fiscal years 1991 through 1993.

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**Table 3-2: Repair and Replacement Allocations  
Compared to Total Available Resources FY 1991 - 1993**

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	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>
Total Available Resources	\$143,887,833	\$152,918,954	\$161,111,464
Repair/Replacement Allocation	\$2,051,564	(a)\$1,971,881	\$2,051,564
Percentage of Total Available Resources	1.43%	1.29%	1.27%

(a) : Original Allocation of \$2,051,564 less cut of \$79,683.

Source: Community College System Allocation data.

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The repair and replacement allocation supplements the Community College System's capital budget appropriations. Capital budget appropriations provide the system with resources for new construction and major repair projects. The Department of Administration administers capital budget appropriations for the Community College System. The facilities division of the Community College System serves as the liaison between the Department of Administration and the physical facility needs of the individual campuses. We did not review the Community College System's capital budget appropriations as part of this audit.

We focused our examination on controls over the use of the repair and replacement allocation during fiscal year 1993. Individual campuses determine the actual use of their share of the allocated funds. The system office, through the facilities division, has established some general guidance on the use of the allocated funds. The campuses work closely with the facilities division to determine physical space needs, prioritize repairs, and obtain bids or materials for specific projects.

The system office processes the invoices for all campus repair and replacement projects. The system office also monitors the payments and resources through their internal allocation system and performs reconciliations to the statewide accounting system. The Community College System processed payments for repair and replacement projects totaling \$2,085,849 for fiscal year 1993.

## Community College System

At the end of the year, the system office calculates the amounts remaining in the campus repair and replacement accounts and determines the carryforward amount. Each campus can carry forward any unexpended balances to subsequent fiscal years. In fiscal year 1993, the individual campuses carried forward \$1,027,475 in the repair and replacement account. Table 3-3 summarizes the financial activity in the repair and replacement account for fiscal year 1993.

**Table 3-3: Summary of Repair and Replacement Financial Activity  
Fiscal Year 1993**

<u>Campus</u>	<u>FY92 Carryover</u>	<u>FY93 Allocation</u>	<u>FY93 Expenditures</u>	<u>FY93 Remaining Obligations</u>	<u>FY 93 Carryover</u>
Anoka-Ramsey	\$ 188,208	\$ 147,323	\$ 222,902	\$2,098	\$ 110,531
Cambridge Center	0	3,657	0	0	3,657
Arrowhead Region	136,747	316,493	302,534	0	150,706
Austin	95,545	90,217	116,999	0	68,763
Brainerd	(30,241)	65,466	62,233	0	(27,008)
Fergus Falls	53,697	64,387	49,332	0	68,752
Northland	77,652	42,127	58,963	10,325	50,491
Inver Hills	(3,566)	112,668	86,428	0	22,674
Lakewood	365	134,161	139,922	0	(5,396)
Minneapolis	94,859	114,947	100,904	529	108,373
Normandale	(2,505)	191,481	190,764	0	(1,788)
North Hennepin	128,620	143,382	92,754	1,044	178,204
Rochester	83,483	154,192	116,104	0	121,571
Willmar	96,351	70,631	64,046	0	102,936
Worthington	79,217	69,682	107,353	0	41,546
System Contingency	<u>61,324</u>	<u>330,750</u>	<u>374,611</u>	<u>0</u>	<u>17,463</u>
Total	<u>\$1,059,756</u>	<u>\$2,051,564</u>	<u>\$2,085,849</u>	<u>\$13,996</u>	<u>\$1,011,475</u>
Other Adjustments	79,683	0	0	0	16,000
Adjusted Total	<u>\$1,139,439</u>	<u>\$2,051,564</u>	<u>\$2,085,849</u>	<u>\$13,996</u>	<u>\$1,027,475</u>

Source: Community College System data for fiscal year 1993 as of January 31, 1994.

We reviewed controls over the administration of repair and replacement funds and tested a sample of expenditures. We found that the Community College System properly controls and accounts for repair and replacement expenditures.

## Chapter 4. Appropriation Allocation Update

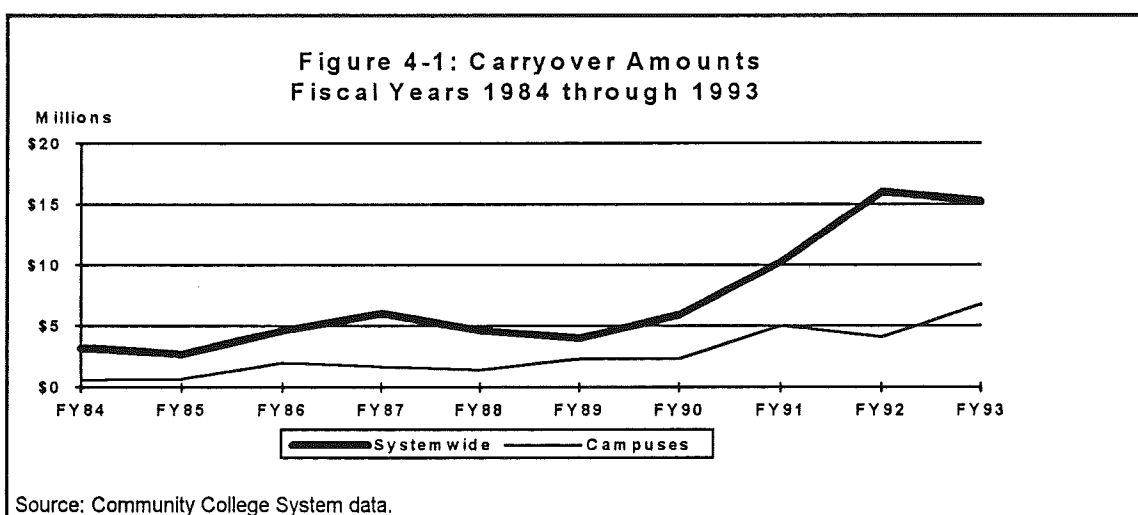
### Chapter Conclusions

*At the end of fiscal year 1993, the Community College System carried forward \$15,255,091, or approximately 10 percent of its available resources. This represents a \$651,356 reduction from the amount carried forward in the previous year.*

Within our fiscal year 1992 audit report on the Community College System, we concluded that the system had allocated its resources to the college campuses and system office in compliance with applicable board policies. We noted the carryover authority established in Minn. Stat. Section 136.67, Subd. 5 and showed how the amount of the carryover had grown in recent years. Much of the increase has come from specific policy decisions on the part of system management. The system office has encouraged the campuses to build reserve accounts to help offset future financial deficiencies. During the current audit, we updated our analysis to include the fiscal year 1993 carryover into fiscal year 1994.

At the end of fiscal year 1993, the Community College System carried forward \$15,255,091, or approximately 10 percent of its available resources. This represents a \$651,356 reduction from the amount carried forward in the previous year.

Of the total amount carried forward, \$6,759,514 represents carryover at the individual campuses. This is an increase of almost 62 percent from the previous year, or more than \$2.5 million. It is apparent that most campuses heeded the advice from the system office and established additional reserve funds. There was a reduction in resources available for allocation from the system in fiscal year 1994 of \$2.8 million. Figure 4-1 shows the trend of Community College System carryover for the last ten years.





Office of the Chancellor  
203 Capitol Square Building  
550 Cedar Street  
St. Paul, Minnesota 55101-4798  
(612) 296-3990

August 26, 1994

Jeanine Leifeld, CPA  
Audit Manager  
Office of the Legislative Auditor  
Centennial Building  
St. Paul, Minnesota 55155

Dear Jeanine:

In response to the Legislative Auditors' findings and recommendations contained in the audit report of selected activities of the Community College System as of and for the year ended June 30, 1993, the following actions will be taken:

## **Chapter 2. Payroll Expenditures**

**FINDING 1:** The Community College System does not consistently use the various payroll type codes available within the personnel/payroll system.

### **Recommendations:**

The Community Colleges should consistently use the appropriate earning codes within the personnel/payroll system to record hours worked.

### **Response:**

The System Office Payroll and Benefits Accounting Supervisor will work with the campus payroll and personnel staff to clearly define and use earning codes as they exist in our current systems, or as they are defined for new payroll and personnel systems currently being developed.

*Person Responsible:* Glenn Wood, Director of Finance

*Implementation of Recommendations:* Immediately

**FINDING 2:** The Community College System does not adequately review payroll hours processed within the personnel/payroll system.

**Recommendations:**

- A. The Community College System should develop a review process to ensure time sheet information is recorded and reported accurately on the personnel/payroll system.
- B. System office staff should notify colleges promptly of changes and corrections they make to college payroll data.

**Response:**

- A. The System Office staff is currently reviewing the time sheet information that is recorded and reported on the personnel/payroll system to assure accuracy.
- B. System office staff will notify colleges of changes and corrections made to college payroll data within 10 work days.

*Person Responsible:* Glenn Wood, Director of Finance

*Implementation of Recommendations:* Immediately

**FINDING 3:** The Community College System needs to evaluate its use of overtime on some campuses.

**Recommendation:**

The Community College System should reevaluate the usage of and need for overtime hours at individual colleges, particularly at Northland Community College.

**Response:**

The Community College System will provide all colleges with a review of the situations and circumstances in which overtime is an efficient and cost-effective means of addressing work requirements and staffing needs.



Jeanine Leifeld  
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August 26, 1994

The situation at Northland Community College is an example of a circumstance where routine boiler inspections required by industry practice could have been performed during the normal work day, making regular use of overtime inappropriate. In this situation, as well as the others noted in the audit report, a specific review of the circumstances resulting in significant amounts of overtime will be conducted and recommendations provided to assist in implementing more efficient usage of overtime pay.

*Person Responsible:* Anne Weyandt, Director of Human Resources  
*Completed by:* October 15, 1994

**FINDING 4:** Certain community colleges did not have adequate controls over processing overtime hours.

**Recommendation:**

Community College employees should obtain prior approval for overtime hours except in emergency situations.

**Response:**

The Community College System will again inform all presidents and college personnel offices of the requirement established in Department of Employee Relations policies and collective bargaining agreements to obtain advance approval for overtime hours, except in emergencies. Specific assistance will be provided to those institutions that indicate a difficulty in obtaining such approvals.

*Person Responsible:* Anne Weyandt, Director of Human Resources  
*Completed by:* October 15, 1994

**FINDING 5:** Mesabi Community College allowed an employee to receive leave for which the employee was not entitled.

**Recommendation:**

The Community College System should work the Attorney General to remedy the overpayment to the Mesabi Community College employee.

Jeanine Leifeld  
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August 26, 1994

**Response:**

The Community College System will cooperate with the Attorney General in their efforts to seek repayment of the amount overpaid to a former Mesabi Community College employee.

*Person Responsible:* Anne Weyandt, Director of Human Resources  
*Completed by:* October 15, 1994

**FINDING 6:** A conflict of interest improperly influenced the appointment of an employee at the Duluth Community College Center and continues to affect the employee's supervision.

**Recommendations:**

- A. The Community College System should reconsider the appointment of the Duluth Center Director 3.
- B. The Community College System should not allow the current Duluth Director 3 to continue to report and be supervised by his father.

**Response:**

The Community College System is presently nearing completion of its internal investigation of the circumstances and issues that led to this audit finding. Upon completion of the internal investigation, the System will work with the president of the Arrowhead Community College Region to implement any necessary corrective actions. A summary of these actions will be provided to the Office of the Legislative Auditor.

*Person Responsible:* Anne Weyandt, Director of Human Resources  
*Completed by:* September 26, 1994

Sincerely,



Dr. Geraldine Evans  
Chancellor

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